ICRA

August 31, 2023

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-I

Rationale

While arriving at the rating for the bank facilities of Vellore Institute of Technology (VIT), ICRA has considered the consolidated financial profiles of VIT and its sister trusts, Vellore Institute of Technology – Andhra Pradesh (VIT-AP) and VIT Trust (VIT Bhopal) given the strong operational linkages among them. VIT has extended a corporate guarantee for the borrowings of VIT Bhopal.

The rating reaffirmation considers the VIT Group's higher-than-expected increase in the scale of operations with more than 77,000 enrolled students in the academic year (AY) 2022-23, translating into an uptick in revenue and operating surplus along with reasonable visibility over the coming years. At the consolidated level, the Group's operating receipts grew by ~25% YoY to Rs. 1,713 crore in FY2022 and are estimated to have been more than Rs. 2,500 crore in FY2023 partly due to recovery in hostel receipts with reopening of the campus after the pandemic and partly due to higher academic receipts owing to an increase in student intake and new course addition. ICRA expects the Group's operating receipts to remain healthy over the next 2-3 years. The Group's net surplus margin improved by ~270 basis points (bps) YoY to 37.8% in FY2022 on the back of better fixed cost absorption. The margin is projected to sustain in the range of 35-40%, going forward. The rating also considers the improving trend in revenue diversification with the share of VIT's Vellore campus in the Group's revenue moderating to ~58% in FY2023 from 80% in FY2018 owing to healthy scale-up of operations of other constituent campuses.

The rating continues to favourably factor in the established brand equity of VIT, reflected in the institute's strong academic and placement track record of over three decades. Besides, VIT consistently ranked among the top-15 engineering colleges in the National Institutional Ranking Framework (NIRF) over the last four years. Further, VIT's accreditation in the highest A++ grade by NAAC and recognition as an Institute of Eminence are expected to continue to aid VIT to have better international collaborations. The ratings also derive comfort from the high degree of financial and operational autonomy enjoyed by VIT owing to its status as a deemed university, allowing it to decide its course fees and introduce new courses.

The rating, however, continues to remain constrained by the significant regulatory risks as the higher education sector in India is highly regulated by multiple authorities with strict compliance requirements. Moreover, the Group's revenue continues to depend on engineering courses while also being exposed to intense competition from other public and private educational institutions. The risks are, however, mitigated to an extent by the established presence and brand name of VIT in the industry and its endeavour to introduce non-engineering courses to diversify its revenue over the long term. The rating also considers the sizeable donations likely to be extended by VIT to its Group entities.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will continue to maintain a substantial net cash position over the medium term, driven by healthy accruals, supported by steady enrolment levels.

Key rating drivers and their description

Credit strengths

Strong financial profile characterised by healthy debt protection metrics and sizeable liquid investments – The VIT Group continues to maintain a strong financial profile, reflected by its sizeable net cash position of more than Rs. 1,400 crore as on March 31, 2023, driven by healthy cash accruals over the years. The Group's operating receipts are estimated to have been more than Rs. 2,600 crore in FY2023 (provisional), up ~50% YoY, driven by recovery in hostel receipts, which had remained subdued during the pandemic, and a healthy increase in enrolments across campuses. While the growth in receipts is likely to moderate in the coming years, partly due to a high base, the Group is expected to maintain its operating surplus margin at ~50%, generating a healthy net cash surplus.

Long and established track record and strong reputation translating into healthy enrolments – Founded in 1984, VIT is one of the well-established educational institutions offering higher education in India. VIT is accredited by the 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 eight universities in this grade. It has been ranked 11th among engineering colleges, 11th among research institutions and 8th among universities in the National Institutional Ranking Framework (NIRF) – 2023 rankings. Moreover, its status as a deemed university and an Institute of Eminence gives it a high degree of autonomy in operational matters. The Group is expected to continue to benefit from its long track record and strong reputation in the higher education sector, going forward.

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 reputation. VIT has a strong placement track record with over 14,000 offers given to students in AY2022-23, according to its placement report. A total of 904 companies visited VIT for recruitment with information technology (IT) companies dominating the placements.

Credit challenges

Exposure to competition, revenue concentration and regulatory risks – 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. Nevertheless, diversification between various branches of engineering remains healthy. The VIT Group's geographical concentration has, however, reduced over the recent years with the share of the Vellore campus in the Group's revenue falling to 56% in FY2023 from 80% in FY2018. 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. 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. Nonetheless, VIT's strong brand name and reputation aid in mitigating the risks to an extent.

Large donation pay-outs and guarantees to Group trusts to fund capex requirements may impact earnings and liquidity – The VIT Group comprises two new universities, VIT Bhopal and VIT-AP, under separate trusts, which were established to diversify its operations. The capital needs for expansion of these campuses are partly met through donations from VIT and partly through bank borrowings. Additionally, VIT donates to Rajeshwari Educational and Charitable Trust and Vellore Educational and Charitable Trust, which operate international schools in Chennai and Bangalore, respectively. VIT has collectively paid donations of more than Rs. 500 crore in FY2023 (provisional) to these institutions and has a track record of extending regular donations to Group entities.

VIT has extended a corporate guarantee/letter of comfort for the borrowings of VIT Bhopal, which has an outstanding debt of Rs. 144 crore as on March 31, 2023 with repayment obligations of Rs. 12 crore, Rs. 19 crore and Rs. 24 crore in FY2024, FY2025 and FY2026, respectively. ICRA expects donations from VIT to be ~Rs. 250 crore p.a. over the next 2-3 years. Any unexpected sizeable donation from VIT could impact its liquidity and will remain a key monitorable. The rating also considers the risk of capital withdrawal from the trust, which could adversely impact its financial risk profile.

Liquidity position: Strong

The Group's liquidity is Strong, characterised by substantial free cash reserves worth more than Rs. 1,600 crore as on March 31, 2023 (provisional) invested as fixed deposits with banks. ICRA expects the Group to generate cash flow from operations in the range of Rs. 1,400-1,500 crore p.a. over the coming years. Against this, it has debt repayment obligation of Rs. 14 crore, Rs. 21 crore and Rs. 26 crore in FY2024, FY2025 and FY2026, respectively along with capital expenditure requirements of Rs. 700-800 crore p.a.

At the standalone level, VIT had free liquid investments worth more than Rs. 1,300 crore as on March 31, 2023 (provisional). The trust is likely to generate cash flow from operations of Rs. 900-1,000 crore p.a. and incur capital expenditure of ~Rs. 400-500 crore p.a. over the coming years. It does not have any repayment obligation.

Rating sensitivities

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

Negative factors – Pressure on the rating could arise if any regulatory development adversely impacts VIT's operating and/or the financial profile. The rating could also be downgraded if its liquidity position or the capital structure weakens on account of sizeable debt-funded capital expenditure, high donation payouts or capital withdrawals. Specific credit metrics that could lead to rating downgrade include return on capital employed (RoCE) below 20% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Higher Education
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VIT, Vellore Institute of Technology – Andhra Pradesh and VIT Trust as per details given in Annexure II

About the company

Vellore Institute of Technology (VIT) is a premier self-financing educational institution in India offering undergraduate, postgraduate and doctoral courses in engineering, sciences, commerce, arts and management, among others. Founded in 1984 by Dr. G. Viswanathan as Vellore Engineering College in Vellore, Tamil Nadu, it was recognised as a deemed-to-be-university by the University Grants Commission in June 2001 and was rechristened as VIT. It has been accredited in the highest A++ grade by NAAC and is ranked among the top 15 engineering colleges in India in the NIRF 2023 rankings. The university conducts its own entrance examinations. The university had an enrolled strength of more than 55,000 students in AY2023 across its two campuses in Vellore and Chennai.

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. VIT Trust operates the VIT Bhopal University, which was established in 2016 as a state private university in Madhya Pradesh.

Key financial indicators^

Vellore Institute of Technology	FY2021 (audited)	FY2022 (audited)	FY2023 (provisional)
Operating income	1,166	1,395	2,057
PAT	301	475	448
OPBDIT/OI	55.3%	54.8%	51.0%
PAT/OI	25.8%	34.0%	21.8%
Total outside liabilities/Tangible net worth (times)	0.3	0.2	0.2
Total debt/OPBDIT (times)	-	-	-
Interest coverage (times)	5,002.7	7,643.1	1,099.7

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

^The financial statements of VIT have been adjusted for depreciation and amortisation by ICRA

Note: ICRA has combined the financial statements of Vellore Institute of Technology, Vellore Institute of Technology – Andhra Pradesh (VIT-AP) and VIT Trust to arrive at the rating for VIT. The rating rationale (incl. KFIs) of VIT-AP can be viewed here. The rating rationale (incl. 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	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 26, 2022	Feb 17, 2022	Dec 01, 2020
1	**Unallocated Limits**	Long-term	200.00	-	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (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.	200.00	[ICRA]AA(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

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

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About ICRA Limited:

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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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