

August 31, 2023

VIT trust: Rating upgraded

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------------------|--------------------------------------|-------------------------------------|---|
| Long-term fund-based – Term Loans | 217.30 | 217.30 | [ICRA]A+ (Stable); upgraded from [ICRA]A (Stable) |
| Long-term Unallocated Limits | 82.70 | 82.70 | [ICRA]A+ (Stable); upgraded from [ICRA]A (Stable) |
| Total | 300.00 | 300.00 | |

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade considers the higher-than-expected increase in the scale of operations of VIT Trust (VIT Bhopal) and ICRA's expectations of sustained performance over the medium term. The increased scale of operations has been reflected in the enrolled strength increasing to more than 10,000 students in the academic year (AY) 2022-23, up 36% YoY, owing to an uptick in the student intake and healthy enrolment level of 85-90% over the last three years. ICRA expects the university to sustain its performance over the coming years. VIT Bhopal's operating receipts jumped by ~80% YoY to ~ Rs. 270 crore in FY2023 (provisional) led by a recovery in the hostel receipts with reopening of the campus after the pandemic and a sustained increase in the student intake. ICRA expects the university's operating receipts to grow by 20-25% p.a. over the next two years. VIT Bhopal's operating surplus margin remained healthy at 68.8% in FY2023 (provisional), with better absorption of fixed costs. The margin is projected to sustain above 60% over the medium term. The rating upgrade also considers a material improvement in VIT Bhopal's liquidity position with a net cash position of more than Rs. 100 crore as on March 31, 2023 against a net cash position of only ~Rs. 10 crore as on March 31, 2022, aided by a sustained increase in cash accruals.

The rating continues to favourably factor in the high degree of autonomy of VIT Bhopal 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 Bhopal in attracting meritorious students to its campus owing to the widely accepted curriculum and industry best practices of VIT. The rating also positively considers the comfortable capital structure and improved liquidity position of the entity, which are likely to support its medium-term capex plans. The rating further considers the corporate guarantee/letter of comfort extended by VIT towards the borrowing of VIT Bhopal and their strong operational linkages.

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 Bhopal to incur capex of Rs. 200-250 crore p.a. over the medium term, which is likely to be funded through internal accruals and donations from VIT, if required. The rating also considers the significant concentration of VIT Bhopal's revenue on engineering courses, which accounted for ~90% of admissions in AY2023, exposing the university to moderation in demand for such courses. Besides, VIT Bhopal 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.

The Stable outlook on the long-term rating reflects ICRA's opinion that VIT Bhopal will continue to generate sufficient net cash accruals to fund its capital expenditure and debt repayment obligation while maintaining healthy cash reserves.

Key rating drivers and their description

Credit strengths

Substantial autonomy due to status as state private university and brand name of VIT – VIT Bhopal 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 Madhya 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 Bhopal in attracting meritorious students.

Improvement in scale of operations and comfortable financial risk profile – VIT Bhopal started accepting students from AY2018 with 412 admissions. Over the years, the total enrolled strength has increased to more than 10,000 students in AY2023, indicating a healthy scale-up of operations, driven by sustained increase in student intake and enrolment level of 85-90% on a sustained basis. Consequently, the cash accruals have improved, translating into better leverage and coverage metrics. VIT Bhopal's gross leverage reduced to below 0.5 times and TD/OPDBITA reduced to below 1.5 times while its DSCR improved to more than 10.0 times in FY2023. The university has built up a sizeable cash reserve of more than Rs. 250 crore as on March 31, 2023, which aids its financial profile. Going forward, ICRA expects the university to continue to improve its scale of operations by introducing new courses and increasing the sanctioned seat strengths and maintain a comfortable financial risk profile.

Strong linkages and support from VIT – VIT Bhopal 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 Bhopal are conducted together with VIT. Additionally, VIT has a demonstrated history of providing financial support in the form of donations to VIT Bhopal, aggregating to ~Rs. 140 crore over the last six years, which has been largely utilised towards capex. ICRA expects VIT to continue to extend support to VIT Bhopal 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 Bhopal incurred a capex of ~Rs. 140 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 Bhopal to have sizeable capex requirements worth Rs. 200-250 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 AY2023. 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 Bhopal 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 Bhopal's liquidity is strong, characterised by a healthy free cash reserve of more than Rs. 250 crore as on March 31, 2023 (provisional) invested as fixed deposits with major banks. The university is expected to generate cash flow from operations

worth Rs. 200-250 crore p.a. over the coming years. Against this, it has debt repayment obligation of Rs. 14 crore, Rs. 19 crore and Rs. 24 crore in FY2024, FY2025 and FY2026, respectively. The university is likely to incur capex of Rs. 200-250 crore p.a. over the next 2-3 years, financed through internal accruals, cash reserves and donations. ICRA also draws comfort from the demonstrated history and willingness of Vellore Institute of Technology to extend financial support to VIT Bhopal in the form of donations.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a sustained improvement in revenue receipts of VIT Bhopal, supported by increased student intake and fee hikes, leading to an improvement in its financial risk profile and liquidity profile. 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 revenue receipts and/or operating surplus or any large unanticipated debt-funded capex, leading to weakening in the overall financial risk profile or liquidity position of the entity. A deterioration in the credit profile of or weakening of linkages with Vellore Institute of Technology could also result in rating downgrade. Specific credit metrics which could result in rating downgrade include TOL/TNW above 1.2 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 Trust 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 Trust over the past five years |
| Consolidation/Standalone | Standalone |

About the company

VIT Trust operates the VIT Bhopal University, which was established as a state private university in Madhya Pradesh in 2016. It offers undergraduate, postgraduate and doctoral courses in engineering, sciences, commerce and management. Its campus is spread over 274 acres at Kothri Kalan in Sehore district of Madhya Pradesh. The university started accepting students from AY2018 with 412 admissions. Over the years, the total enrolled strength has increased to more than 10,000 students in AY2023. The university has close operational linkages with Vellore Institute of Technology.

Key financial indicators*

| VIT Trust | FY2021 (audited) | FY2022 (audited) | FY2023 (provisional) |
|--|---------------------|---------------------|-------------------------|
| Operating income | 97 | 150 | 270 |
| PAT | 48 | 126 | 202 |
| OPBDIT/OI | 60.8% | 66.7% | 68.8% |
| PAT/OI | 50.0% | 83.9% | 74.9% |
| Total outside liabilities/Tangible net worth (times) | 1.6 | 0.8 | 0.5 |
| Total debt/OPBDIT (times) | 2.8 | 1.5 | 0.8 |
| Interest coverage (times) | 3.9 | 7.9 | 15.7 |

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

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

Note: The rating rationale (incl. KFIs) 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 | Dec 05, 2022 | Feb 17, 2022 | Dec 01, 2020 | |
| 1 | Term Loans | Long-term | 217.30 | 144.1 | [ICRA]A+ (Stable) | [ICRA]A (Stable) | [ICRA]A+(CE) (Stable) | [ICRA]A(CE) (Positive) |
| 2 | Unallocated Limits | Long-term | 82.70 | - | [ICRA]A+ (Stable) | [ICRA]A (Stable) | [ICRA]A+(CE) (Stable) | [ICRA]A(CE) (Positive) |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|-----------------------------------|----------------------|
| Long-term fund-based – Term Loans | Simple |
| 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. | Term Loan I | FY2018 | 9-10% | FY2030 | 105.50 | [ICRA]A+ (Stable) |
| N.A. | Term Loan II | FY2020 | 9-10% | FY2030 | 111.80 | [ICRA]A+ (Stable) |
| N.A. | Unallocated Limits | N.A. | N.A. | N.A. | 82.70 | [ICRA]A+ (Stable) |

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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Branches



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