

December 21, 2023

The ICFAI Society: Rating upgraded to [ICRA]AA- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund based/Term loan	25.00	25.00	[ICRA]AA- (Stable); Upgraded from [ICRA] A+ (Stable)
Long Term – Fund based/Cash credit	80.00	80.00	[ICRA]AA- (Stable); Upgraded from [ICRA] A+ (Stable)
Long Term – Unallocated	205.00	205.00	[ICRA]AA- (Stable); Upgraded from [ICRA] A+ (Stable)
Total	310.00	310.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the rating, ICRA has taken a consolidated view of The ICFAI Society, ICFAI Foundation for Higher Education (IFHE) and other entities operating in the Group (hereafter collectively referred to as the ICFAI Group), given the strong operational and financial linkages among the entities. The ICFAI Society is the sponsor for other entities in the Group and owns most of the assets, including some of the campuses utilised by these entities. Details of various entities operating under the ICFAI Group, which have been consolidated, are given in Annexure II.

The rating upgrade favourably factors in the healthy growth of approximately 19% in the Group's revenues in FY2023 to Rs. 685 crore, driven by continued stable growth in enrolments and periodic fee revisions. The growth momentum is likely to continue in the current fiscal as the Group is expected to report over Rs. 750 crore of revenues. Further, the Group's financial profile continues to be robust, characterised by a conservative capital structure (reflected by Total Debt/Operating Surplus of 0.3 times for FY2023), healthy surplus and strong debt coverage indicators. ICRA expects the improvement trend to continue and the Group's financial risk profile to strengthen over the medium term. Further, the Group enjoys healthy financial flexibility, backed by its sizeable cash and cash equivalents estimated at more than ~Rs. 1,600 crore as on March 31, 2023. While the Group has plans of undertaking capex, which could result in some moderation in cash reserves over the medium term, these are still expected to remain high. The rating action also factors in the established presence of the ICFAI Group in the field of higher education, providing undergraduate and post graduate courses in the fields of management, science, and law among others.

The rating continues to factor in the modest performance of the state private universities under the ICFAI Group. Most of the said universities have continued to report tepid earnings and thus remain dependent on the sponsor for funding their operational and capital expenditure requirements. The rating also considers the Group's high dependence on IFHE and The ICFAI Society (which together operate most of the key business schools in the Group) as these two entities account for ~75% of the Group's revenues. Further, the Group's overall performance is also dependent on the management programmes, with enrolments and other operational parameters remaining at moderate levels for other programmes. Additionally, ICRA believes that attracting students and retaining faculty members would remain key challenges owing to the increasing competition in the higher education segment. The demonstrated operational track record, with strong performance in the management courses over the last decade, provides comfort. However, the ability to maintain a stable admission and placement track record and achieve the targeted operational parameters will be important from the credit perspective. ICRA also notes that the higher education sector in India is highly regulated, which exposes the Group to regulatory risks associated with the stringent compliance requirements.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's expectation that the operational and financial performances of the ICFAI Group will continue to benefit from a steady increase in its student strength. Further, ICRA expects the Group's liquidity position and credit metrics to remain strong, led by generation of healthy surplus cash flow from operations.

Key rating drivers and their description

Credit strengths

Healthy increase in revenues in FY2023; momentum likely to continue in the current fiscal – The Group's revenues rose 19% in FY2023 to Rs. 685 crore from Rs. 574 crore in FY2022 on account of an increase in total enrolments. In FY2023, the total enrolments increased by 13% to 25,575 students from 22,666 students in FY2022. Moreover, the Group's performance is expected to improve in FY2024. ICRA expects the improvement trend to continue and the Group's financial risk profile to strengthen over the medium term. The Group has already reported revenues of Rs. 566 crore till November 2023 and expects to report revenues of more than Rs. 750 crore in the current fiscal.

Established track record and reputation in the Indian higher education sector – Founded in 1984, the ICFAI Group is one of the well-established educational institutions offering higher education (especially in the management education segment) in India. The Group has a national presence with nine ICFAI Business Schools (IBS), 10 operational state private universities and one deemed university, operating across 17 locations in India. The Group's operational strengths are reflected in the continued high enrolments in its management courses and the large student strength of more than ~25,000 in AY 2023, which together with a competitive and steady fee structure, lend visibility to its revenues and cash flows.

Robust financial profile and strong liquidity position – The Group has a conservative capital structure, with minimal reliance on debt. Healthy surplus generation continues to aid in strong liquidity, facilitating a build-up of sizeable cash and liquid balances. Although the Group sometimes uses a temporary overdraft facility and has marginal other borrowings, it continues to have a negative net debt position. Steady scale and surplus margins, together with surplus liquidity available to fund the company's proposed capital expenditure plans without any incremental reliance on external borrowings, are expected to keep the Group's financial profile robust (reflected in estimated Total Debt/ Operating Surplus of 0.3 times for FY2024).

Credit challenges

High revenue concentration – The ICFAI Group's performance remains concentrated towards IBS-Hyderabad and other business schools, which account for more than 75% of the Group's revenues and earnings. Dependence on these institutions has remained high owing to low contribution from the state private universities, some of which continue to report operating deficit. Nonetheless, demonstrated operational track record, with strong performance witnessed in the management courses over the last decade, provides comfort with healthy enrolments and placements witnessed over the years.

Intense competition puts pressure on attracting and retaining talented students and faculty members – Given the large batch sizes and growing competition in the higher education sector, ensuring 100% placements, attracting students and retaining faculty members remain key challenges for the Group. The risk is, however, partially mitigated by the Group's established brand position and extensive track record of operations of nearly four decades.

Exposure to regulatory risks – The flagship institute of the Group in Hyderabad has a deemed university status under Section 3 of the UGC Act, 1956, because of which it enjoys significant academic and operational autonomy in deciding its fee structure, student intake and academic content. However, the Group needs to continuously comply with the regulations of the state government as well as of various regulatory agencies, such as the University Grants Commission (UGC), particularly for the other institutes under its umbrella. Any adverse regulatory change could impact its performance.

Liquidity position: Strong

The Group's liquidity position is strong, driven by the healthy surplus cash flow generated from operations over the years. This is also corroborated by the healthy cash and cash equivalents, at more than ~Rs. 1,600 crore as of September 30, 2023. A part of the accumulated cash balance needs to be utilised towards funding the Group's proposed capital expenditure plans in the near-to-medium term. Despite the expected outflow towards capex, continued healthy cash flow generation from operations and its large surplus cash reserves are likely to keep the Group's liquidity position strong.

Rating sensitivities

Positive factors – The rating may be upgraded if the scale of operations and surplus register a healthy growth on a sustained basis, while achieving more diversification across streams and institutes, besides maintaining a healthy credit profile. Specific credit metrics that may result in a rating upgrade include ROCE of more than 22% on a sustained basis.

Negative factors – The rating may be downgraded if there is a significant and sustained deterioration in the performance and a sharp rise in the debt levels on the back of significant capital expenditure incurred by the Group, impacting its credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Higher Education
Parent/Group support	Not Applicable
Consolidation/Standalone	The ICFAI Group is considered to share a common credit profile because of the strong operational and financial linkages among the entities. Also, all the entities operate as an extended arm of the sponsor with separate legal existence for regulatory and operational reasons. The list of entities considered while taking a consolidated view has been given in Annexure II.

About the entity

The ICFAI Society was established as a not-for-profit society in 1984. It commenced operations with the launch of the Chartered Financial Analyst (CFA) programme in 1985. Over the years, The ICFAI Society has sponsored and introduced several courses under different institutions and universities. Initially, three key not-for-profit entities were established—ICFAIAN Foundation, ICFAI Academy and ICFAI Foundation for Higher Education—offering various courses at undergraduate and post-graduate levels. ICFAI Academy ceased operations from FY2011 and ICFAIAN Foundation from FY2020. Over the last decade, it has established various state private universities under the respective state legislature acts across India.

The ICFAI Foundation covered the operations of six IBS centres (IBS Bangalore transferred to The ICFAI Society from FY2016) that were located across India. With effect from October 1, 2019, the operations of the other five IBS centres (Mumbai, Pune, Gurgaon, Kolkata and Ahmedabad) were also transferred to The ICFAI Society.

In addition, the society has other private state universities offering various courses. Ten ICFAI Universities were established (as state private universities) by the respective state legislature acts in Uttarakhand, Tripura, Sikkim, Meghalaya, Mizoram, Nagaland, Jharkhand, Jaipur, Raipur and Himachal Pradesh.

Key financial indicators (audited)

ICFAI Group consolidated	FY2022	FY2023
Operating income	574.2	684.6
PAT	293.2	302.6
OPBDIT/OI	40.3%	33.5%
PAT/OI	51.1%	44.2%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.3	0.3
Interest coverage (times)	45.3	43.7

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

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 Nov 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Dec 21, 2023	Aug 04, 2023		Dec 30, 2022	Sep 30, 2021	
1 Cash Credit	Long term	80.0	-	[ICRA] AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2 Term Loan	Long term	25.0	7.00	[ICRA] AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Unallocated	Long term	205.0	--	[ICRA] AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-fund based/Cash credit	Simple
Long Term-fund based/Term loan	Simple
Long Term-Unallocated	Not applicable

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
NA	Cash Credit	NA	NA	NA	80.00	[ICRA] AA- (Stable)
NA	Term Loan	FY2023	NA	FY2029	25.00	[ICRA] AA- (Stable)
NA	Unallocated	NA	NA	NA	205.00	[ICRA] AA- (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

Company Name	Ownership	Consolidation Approach
The ICFAI Society	-	Full Consolidation
ICFAI Foundation for Higher Education	-	Full Consolidation
ICFAI University Jaipur	-	Full Consolidation
ICFAI University Sikkim	-	Full Consolidation
The ICFAI University Dehradun	-	Full Consolidation
The ICFAI University Jharkhand	-	Full Consolidation
The ICFAI University Mizoram	-	Full Consolidation
The ICFAI University Nagaland	-	Full Consolidation
The ICFAI University Meghalaya	-	Full Consolidation
The ICFAI University Raipur	-	Full Consolidation
The ICFAI University Tripura	-	Full Consolidation
ICFAI University Himachal Pradesh	-	Full Consolidation

Source: Company

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