

September 30, 2024

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

Summary of rating action

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

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for Vellore Institute of Technology – Andhra Pradesh (VIT-AP) favourably factors in the improvement in the entity's operational performance, which is expected to sustain in the medium term, while maintaining strong financial profile along with strong liquidity. The enrolment levels improved to more than 13,000 students in the academic year (AY) 2023-2024 (previous AY: ~10,000 students), which resulted in 34% revenue growth to Rs. 427.1 crore in FY2024 (PY: Rs. 318.2 crore). The growth momentum is likely to continue in the current fiscal and trust is expected to report revenues of over Rs. 500 crore with healthy operating margins in the range of 47-49%. Further, the financial risk profile of the trust continues to be strong, characterised by a conservative capital structure with nil external debt and healthy accruals. VIT-AP enjoys strong financial flexibility, being a part of the VIT Group. Further, the financial risk profile of the trust continues to be strong, characterised by a conservative capital structure and healthy accruals. VIT Trust enjoys strong financial flexibility, being a part of the VIT Group. Further, the rating favourably factors in the high degree of autonomy of VIT Trust owing to its status as a state private university, which allows it to decide its course fee and introduce new courses. The rating 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, however, remains constrained by the significant concentration of VIT-AP's revenue from engineering courses, which accounted for 80-90% of admissions in AY2023-2024, exposing the university to moderation in demand for such courses. Introduction of new courses in the non-engineering streams is likely to aid in revenue diversification over the long term. Besides, VIT-AP is exposed to intense competition from other public and private educational institutions. The rating 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 [ICRA]A+ rating reflects ICRA's expectation that the operational and financial performance of the trust will continue to benefit from a steady increase in its student strength, low leverage and strong liquidity position.

Key rating drivers and their description

Credit strengths

Improvement in operational performance; strong financial risk profile – The trust's operational performance has improved in FY2024, which is expected to sustain in the medium term, while maintaining strong financial profile along with strong liquidity. The enrolment levels improved to more than 13,000 students in the academic year (AY) 2023-24 (previous AY: ~10,000 students) which resulted in a growth of 34% in revenues to Rs. 427.1 crore in FY2024 (PY: Rs. 318.2 crore). The growth momentum is likely to continue in the current fiscal and trust is expected to report revenues of over Rs. 500 crores with healthy

operating margins in the range of 47-49%. Further, the financial risk profile of the trust continues to be strong, characterised by a conservative capital structure with nil external debt and healthy accruals.

Substantial autonomy due to status as state private university and brand name of VIT – VIT-AP enjoys strong financial flexibility, being a part of the VIT Group. Further, the rating continues to favourably factor in the high degree of autonomy of VIT Trust owing to its status as a state private university, which allows it to decide its course fee and introduce new courses. The rating 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.

Credit challenges

High concentration of revenue in engineering education – The trust's revenue is highly concentrated in the engineering education with such courses accounting for about 80-90% of admissions in AY2023-2024, exposing the university to moderation in demand for such courses. Introduction of new courses in non-engineering streams is likely to aid in revenue diversification 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

The trust'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, of more than ~Rs. 500 crore as on September 10, 2024. A part of the accumulated cash balance will be utilised towards funding the trust's proposed capital expenditure plans in the near to medium term. Despite the expected outflow towards capex, the continued healthy cash flow generation from operations and its large surplus cash reserves are likely to keep the trust's liquidity position strong.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a significant increase in scale of operations and diversification of revenue, while maintain strong debt protection metrics and liquidity position on a sustained basis.

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 on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Higher Education
Parent/Group support	NA
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 AY2017-2018 with 586 admissions. Over the years, the total enrolled strength has risen to more than 13,000 students in AY2023-2024.

Key financial indicators

VIT – AP	FY2023 (audited)	FY2024 (provisional)
Operating income	318.2	427.1
PAT	494.3	248.2
OPBDIT/OI	48.4%	48.0%
PAT/OI	155.3%	58.1%
Total outside liabilities/Tangible net worth (times)	0.0	0.0
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	4.8	7301.5

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

Source: Company, ICRA Research; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Sep 30, 2024	Date	Rating	Date	Rating	Date	Rating
Term loans	Long Term	-	-	-	-	May 27, 2022	[ICRA]A- (Stable)	-	-
Unallocated limits	Long Term	430.00	[ICRA]A+ (Stable)	Aug 31, 2023	[ICRA]A (Positive)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term unallocated limits	NA

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+ (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 – Not Applicable

ANALYST CONTACTS

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Anupama Reddy

+91 40 6939 6427

anupama.reddy@icraindia.com

Abhishek Lahoti

+91 40 6939 6433

abhishek.lahoti@icraindia.com

Preeti Rana

+91 124 4545 887

preeti.rana@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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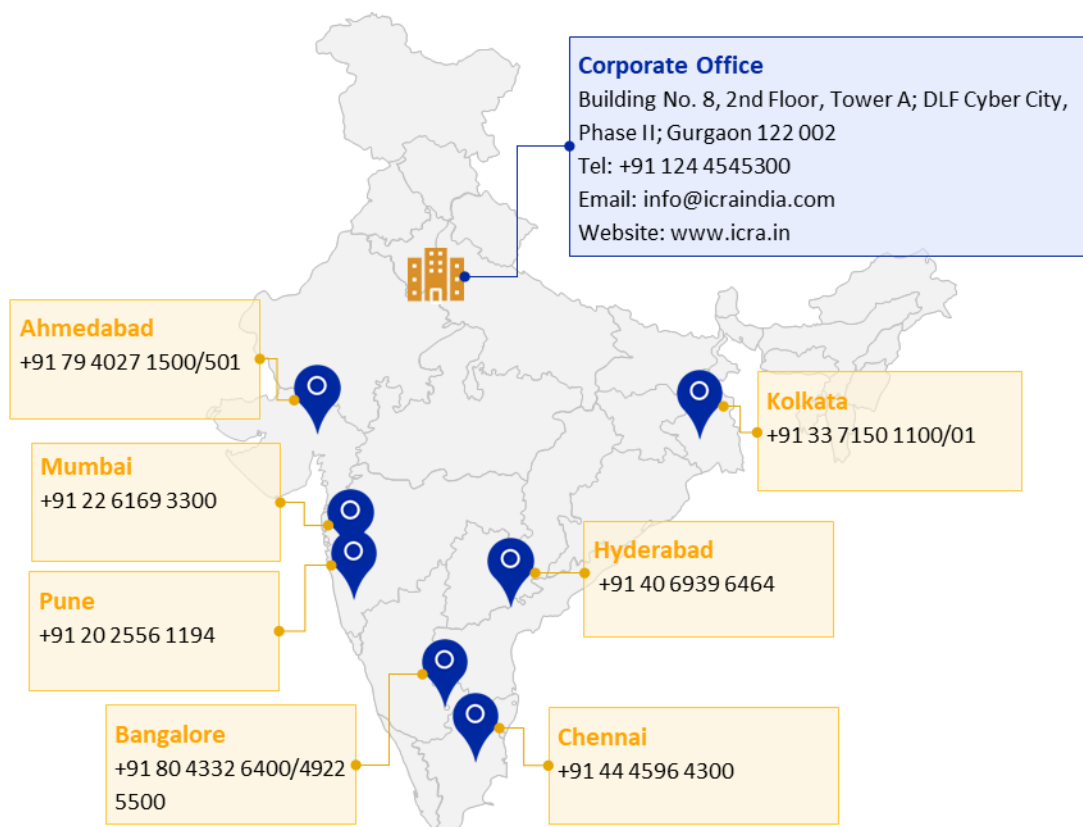


Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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