December 09, 2024

The ICFAI Society: Rating reaffirmed

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	95.00	[ICRA]AA- (Stable); reaffirmed
Long-term – Fund-based – Cash credit	80.00	100.00	
Long-term – Unallocated	205.00	115.00	
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, managerial 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 reaffirmation favourably factors in the sustained improvement in the Group's operational performance, which is expected to continue in the medium term, while maintaining the strong financial risk profile and liquidity position. The Group's student strength improved to 27,811 students in the academic year (AY) 2024 from 25,575 in AY2023. Consequently, revenues rose by 15% to Rs. 787 crore in FY2024 (PY: Rs. 685 crore) and the growth momentum is likely to continue with projected revenues of around Rs. 850-Rs.875 crore in FY2025. Further, its financial profile continues to be robust, backed by healthy cash flow from operations generated over the years and characterised by a conservative capital structure (reflected by Total Debt/Operating Surplus of 0.3 times for FY2024), healthy surplus and strong debt coverage indicators, which is expected to sustain over the medium term. The Group has sizeable cash and cash equivalents of more than ~Rs. 1,700 crore as on March 31, 2024. While the Group has plans of undertaking capex, which could result in some moderation in cash reserves over the medium term, these are still anticipated to remain high. The rating action factors in the established presence of the ICFAI Group in the field of higher education, providing undergraduate, post-graduate and doctoral courses in the fields of management, science, and law, among others.

The rating factors in the modest performance of some 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 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 ~80% of the Group's revenues. Further, the Group's overall performance is dependent on the management programmes, with enrolments and other operational parameters remaining at moderate levels for other programmes. Introduction of new courses in the non-management streams is likely to aid in revenue diversification over the long term. Additionally, ICRA believes that attracting students and retaining faculty members would remain the 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 benefit from a steady increase in its student strength. Further, ICRA expects the Group's liquidity position and debt protection 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 FY2024 and momentum likely to continue in the medium term – The Group's operational performance has improved in FY2024, which is expected to sustain in the medium term. The Group's student strength improved to 27,811 students in the academic year (AY) 2024 from 25,575 in AY2023. Consequently, revenues increased by 15% to Rs. 787 crore in FY2024 (PY: Rs. 685 crore) and the growth momentum is likely to continue with projected revenues of around Rs. 850-Rs.875 crore in FY2025.

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 strength is reflected in the continued high enrolments in its management courses and the large student strength of more than ~27,000 in AY2024, which together with a competitive and steady fee structure, lend visibility to its revenues and cash flows.

Strong financial profile and liquidity position – The Group's financial profile continues to be robust, backed by healthy cash flow from operations generated over the years and characterised by a conservative capital structure (reflected by Total Debt/Operating Surplus of 0.3 times for FY2024), healthy surplus and strong debt coverage indicators, which is expected to sustain over the medium term. 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 maintains a negative net debt position.

Credit challenges

High revenue concentration from business schools – The ICFAI Group's performance remains concentrated towards IBS-Hyderabad and other business schools, which account for more than 70% of the Group's revenues and earnings. Dependence on these institutions 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 in the management courses over the last decade, provides comfort with healthy enrolments and placements witnessed over the years. Moreover, introduction of new courses in the non-management streams is likely to aid in revenue diversification over the long term.

Intense competition puts pressure on attracting and retaining talented students and faculty – Given the large batch sizes and growing competition in the higher education sector, ensuring 100% placement, attracting students and retaining faculty members remain the 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 regulations of the state government as well as of various regulatory agencies, such as the University Grants Commission (UGC), particularly for some of 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 corroborated by the healthy cash and cash equivalents of more than ~Rs. 1,700 crore as on March 31, 2024. 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. The Group has capex plans of Rs. 300-350 crore in FY2025, which is anticipated to be funded by debt of Rs. 225-250 crore and the balance through internal accruals.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a healthy increase in scale of operations and surpluses, while maintaining strong debt protection metrics and liquidity position, along with improvement in diversification across streams and institutes. Specific credit metrics that may result in a rating upgrade include ROCE of more than 22% on a sustained basis.

Negative factors – Pressure on the rating could arise in case of a substantial decline in revenues and accruals or higher-than-expected debt-funded capex by the Group, which impacts its debt protection metrics and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit 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, managerial 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, it 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 and later on became the off campus of IFHE in FY2022) 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 transferred to The ICFAI Society.

In addition, the ICFAI Group has other state private 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	FY2023	FY2024
Revenue receipts (RR)	684.6	786.8
Net surplus (NS)	302.6	259.5
OS/RR (%)	33.5%	29.2%
NS/RR (%)	44.2%	33.0%
Total outside liabilities/ Corpus and surplus Fund (times)	0.1	0.1
Total debt/Operating Surplus (times)	0.3	0.3
Interest coverage (times)	43.7	56.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

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					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash credit	Long Term	100.00	09-Dec-2024	[ICRA] AA- (Stable)	21-Dec-2023	[ICRA] AA- (Stable)	30-Dec-2022	[ICRA] A+ (Stable)	30-Sep-2021	[ICRA] A+ (Stable)
					04-Aug-2023	[ICRA] A+ (Stable)	-	-	01-Apr-2021	[ICRA] A+ (Stable)
Term loans	Long Term	95.00	09-Dec-2024	[ICRA] AA- (Stable)	21-Dec-2023	[ICRA] AA- (Stable)	30-Dec-2022	[ICRA] A+ (Stable)	30-Sep-2021	[ICRA] A+ (Stable)
					04-Aug-2023	[ICRA] A+ (Stable)	-	-	01-Apr-2021	[ICRA] A+ (Stable)
Unallocated	Long Term	115.00	09-Dec-2024	[ICRA] AA- (Stable)	21-Dec-2023	[ICRA] AA- (Stable)	30-Dec-2022	[ICRA] A+ (Stable)	30-Sep-2021	[ICRA] A+ (Stable)
					04-Aug-2023	[ICRA] A+ (Stable)	-	-	01-Apr-2021	[ICRA] A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund-based – Cash credit	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	100.00	[ICRA]AA- (Stable)
NA	Term loan – I	FY2023	NA	FY2029	25.00	[ICRA]AA- (Stable)
NA	Term loan – II	FY2025	NA	FY2032	70.00	[ICRA]AA- (Stable)
NA	Unallocated	NA	NA	NA	115.00	[ICRA]AA- (Stable)

Source: Entity

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: Entity; The ICFAI Society is sponsor for all the other universities; ICRA Research

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About ICRA Limited:

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