

January 31, 2025

DAV University: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loans	40.00	40.00	[ICRA]A+(CE)(Stable); Reaffirmed
Total	40.00	40.00	
Unsupported rating without explicit support			[ICRA]BBB-

*Instrument details are provided in Annexure-1. Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating is based on the unconditional and irrevocable corporate guarantee issued by the DAV College Trust and Management Society [CTMS/Society; rated [ICRA]A+ (Stable)] for the due payment of the captioned facility to the bank. The [ICRA]A+(CE) (Stable) rating for the instrument addresses the servicing of the bank lines to happen as per the underlying terms of the instrument and the guarantee agreement for the same. The rating assumes that the guarantee will be duly invoked by the lender, as per the terms of the instrument. The Stable outlook on the rating of DAV University's (university) term loan programme reflects the Stable outlook on CTMS' rating.

The rating considers the strong association of the DAV brand, which has an operational track record of over 138 years. This has helped the university in increasing its student strength in the initial years. Further, the rating considers the financial linkages of the university with CTMS, as reflected in the track record of financial support from the institutions under the trust to the university. The university's liquidity, on a standalone basis, remains adequate due to free cash and cash equivalents of Rs. 48.4 crore as of March 2024. The same is adequate for meeting the repayment obligation of the term loans in the near term. However, the university continues to receive financial support from CTMS for repayment of loans.

The rating is, however, constrained by the university's high dependence on its parent for funding any unanticipated capex in future as well as repayment of loans due its inability to achieve breakeven. Although DAV University's operating income improved to Rs. 31.8 crore in FY2024 (compared to Rs. 30.4 crore in FY2023) due to higher tuition fee and students count, its operating surplus moderated to Rs. 2.4 crore (PY: 4.4 crore) largely on account of higher expenses due to rise in fixed costs (employee expenses) and higher welfare expenses in FY2024. Nonetheless, the university has launched new courses and students count is expended to increase over the medium year. Consequently, its muted financial profile with pressure on profitability, negative net worth position and weak coverage ratios adversely impact the rating. Moreover, intense competition from other higher educational institutes in the northern region and exposure to regulatory risk continue to be the key credit challenges.

Adequacy of credit enhancement

The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument. However, the guarantee does not include any structured payment mechanism for invocation of the guarantee, on or before the due date. Nevertheless, the university's strong business linkages with the guarantor (CTMS) provide additional comfort to the company's credit profile. Taking cognisance of these factors, the guarantee provided by CTMS is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]BBB- without explicit credit enhancement. If the rating of the guarantor undergoes a change in the future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- Amount equivalent to Rs. 12 crore shall be placed as lien-marked fixed deposits as DSRA FD during the currency term loan facility
- During currency of loan, any loan to sponsor from funds of borrower shall be made only after lender's approvals
- Borrower cannot sell, transfer or dispose of any assets (except subleasing of land/facilities), without prior written approval of lender
- Restrictions on entering into any financial obligation of long-term nature/ adversely affecting the borrower's financials.

Key rating drivers and their description

Credit strengths

Corporate guarantee issued by DAV CTMS – The rating is based on an unconditional and irrevocable corporate guarantee issued by the CTMS to the bank for the due payment of the rated facility.

Strong association of DAV brand and financial linkages with institutions in the Group – The rating considers the strong association of the DAV brand, which has an operational track record of over 138 years. This has helped the university in the initial years of its operations. Further, the rating considers the financial linkages of the university with CTMS, as reflected in the track record of financial support from the institutions under the trust to the university.

Credit challenges

High dependency of the university on promoter support to fund capex and principal repayment – The university's operations are yet to achieve breakeven and hence generates low cash accruals vis-à-vis the repayment obligations. Hence, it depends on funding support from the parent for meeting its cash flow shortfalls. Moreover, for capex, the university depends on the funds/donations from its parent, CTMS.

Subdued operational performance – Although the DAV University's operating income improved to Rs. 31.8 crore in FY2024 (compared to Rs. 30.4 crore in FY2023) due to higher tuition fee and students count, its operating surplus moderated to Rs. 2.4 crore (PY: 4.4 crore) largely on account of higher expenses owing to an increase in fixed costs (employee expenses) and higher welfare expenses in FY2024. Further, the operating income stood lower than the pre-Covid years on account of rise in competition. Nevertheless, DAV University has recently introduced some new courses for increasing student enrolment, which could support its revenue growth.

Liquidity position (Guarantor): Strong

On a consolidated basis, CTMS had a large cash reserve of Rs. 6,786.0 crore as on March 31, 2024, resulting in a strong liquidity position. While the cash balance is dispersed across multiple locations with the respective institutes, given the strong control of CTMS, the fungibility of these funds remains strong. Further, the society generates robust cash from operations as well as large interest income on liquid balances with relatively lower funding commitment for debt servicing (around Rs. 35 crore repayment in FY2025). On a consolidated basis, the Group is likely to generate large cash accruals of around Rs. 680.0-720.0 crore in FY2025. Additionally, the society receives sizeable amount of donations. The society has a demonstrated track record of generating strong residual cash after meeting all its obligations, including sizeable capex, funded primarily through internal accruals and support extended to weaker institutes in the Group.

Liquidity position (DAV University): Adequate

The liquidity position of the university remains adequate with free cash and cash equivalents of Rs. 48.4 crore as on March 31, 2024. While the entity is likely to generate nominal cash accruals of around Rs. 4.0-5.0 crore in FY2025, its free balances would be adequate for meeting repayment obligations. The university receives financial support from CTMS and other DAV institutes (in the form of interest-free long-term advances) for its business operations, including repayment of loans.

Rating sensitivities

Positive factors – The rating may be upgraded if there is an improvement in the parent entity's (CTMS) credit profile.

Negative factors – The rating may be downgraded if there is a deterioration in the parent entity's (CTMS) credit profile or failure to adherence or change in the structure/terms of the corporate guarantee.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Higher Education
Parent/Group Support	The rating is based on unconditional and irrevocable corporate guarantee from CTMS for the Rs. 70-crore term loan of DAV University.
Consolidation/Standalone	Standalone

About the company (DAV University)

DAV University is the first university set up by CTMS in 2013. The main campus is situated in Jalandhar, Punjab, spread across 70 acres. Its course offerings include B.Tech, M.Tech, B.Sc, M.Sc, MBA, among others. The university has a strength of around 4,300 students in AY2025. As the university is still growing, it is dependent on support from other DAV institutes, which is channelled through CTMS.

About the guarantor (CTMS)

DAV CTMS is a non-Governmental educational organisation managing a chain of more than 900 educational institutions, including 800 schools and one state private university. The first DAV institution was established in Lahore in June 1886. The management has established several senior secondary schools, public schools, management colleges, Ayurvedic colleges, dental colleges, engineering institutes, industrial training centres, hospitals, university, etc. The operations of the society are managed by the DAV College Management Committee.

Key financial indicators (audited) – DAV University

DAV University	FY2023	FY2024
Operating income	30.4	31.8
PAT	-12.6	-11.5
OPBDIT/OI	14.5%	7.4%
PAT/OI	-41.5%	-36.1%
Total outside liabilities/Tangible net worth (times)	-5.0	-4.3
Total debt/OPBDIT (times)	71.0	134.9
Interest coverage (times)	0.7	0.5

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

Source: Company; ICRA Research

Key financial indicators (audited) – CTMS (Guarantor)

CTMS	FY2023	FY2024
Operating income	4,533.0	4,924.4
PAT	592.6	743.9
OPBDIT/OI	2.1%	4.5%
PAT/OI	13.1%	15.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.5
Total debt/OPBDIT (times)	1.0	0.8
Interest coverage (times)	11.0	32.3

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

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Date and Rating on	Date & Rating		
				January 31, 2025	FY2024	FY2023	FY2022
					Nov 30, 2023	Aug 29, 2022	May 21, 2021
1	Fund-based – Term Loans	Long-term	40.00	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loans	Simple

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based – Term loans	June 2016	NA	Oct 2026	40.00	[ICRA]A+(CE) (Stable)

Source: DAV University

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-II: List of entities considered for consolidated analysis: Not Applicable

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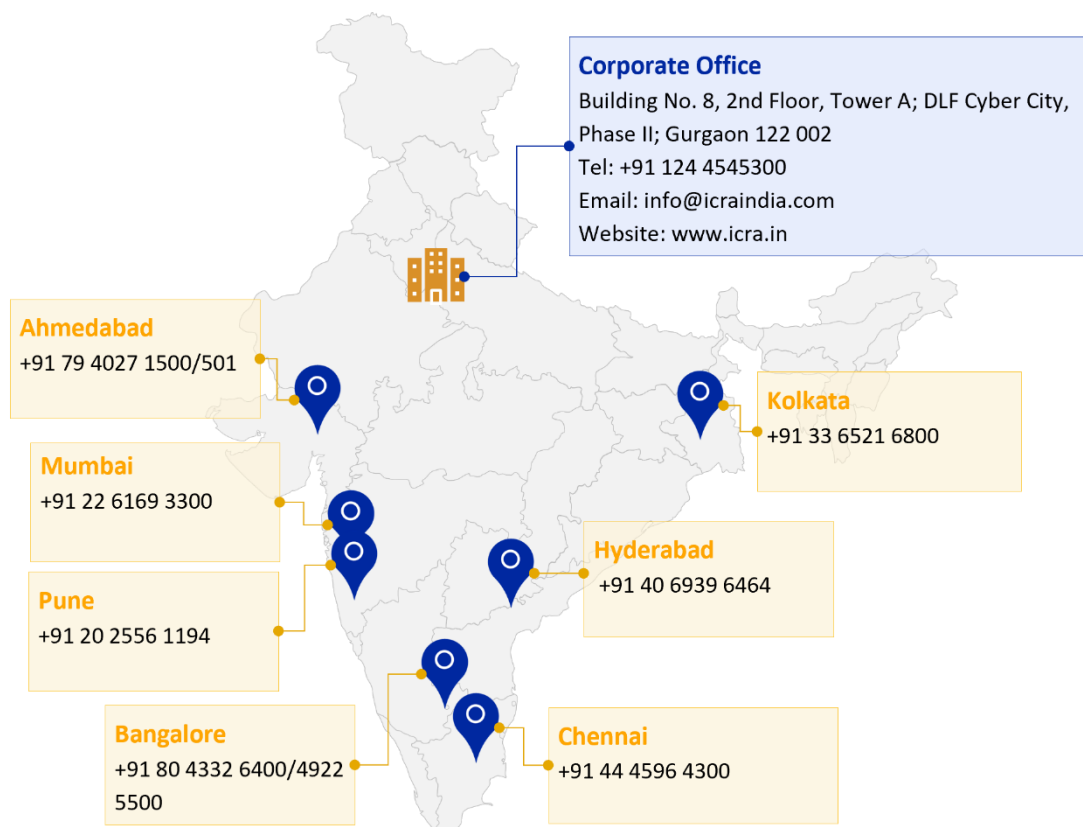


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