

## The ICFAI Society

February 01, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	81.43	48.72	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Unallocated limits	228.57	261.28	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
<b>Total limits</b>	<b>310.00</b>	<b>310.00</b>	

### Rating action

ICRA has upgraded the long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 48.72- crore<sup>1</sup> (revised from Rs. 81.43) bank-facilities and Rs. 261.28-crore unallocated limits(revised from Rs. 228.57) of The ICFAI Society<sup>2</sup> to [ICRA]A (pronounced ICRA A). The outlook on the long-term rating continues to be 'Stable'.

### Rationale

ICRA has taken a consolidated view of the ICFAI Group, which comprises The ICFAI Society along with key associate entities namely ICFAIAN Foundation (IF), ICFAI Foundation for Higher Education (IFHE), The ICFAI University Dehradun (IUD), The ICFAI University at Sikkim (IUS), The ICFAI University Tripura (IUT) and also seven other state private universities – namely The ICFAI University Jaipur (IUJ), The ICFAI University Himachal Pradesh (IUHP), The ICFAI University Meghalaya (IUM), The ICFAI University Nagaland (IUN), The ICFAI University Raipur (IUR), The ICFAI University Mizoram (IUMz) and The ICFAI University Jharkhand (IUJh). The ICFAI Society acts as the holding entity and owns most of the assets including the campuses utilised by the sponsored independent entities. Operational cash surpluses from these entities are transferred to The ICFAI Society, for debt servicing and funding expansion.

The rating upgrade factors in the continued improvement in business and financial risk profile of the Group during FY2017 and the current fiscal, supported by improvement in enrolments for the management courses offered by the seven ICFAI Business Schools<sup>3</sup>, which together account for ~80% of its consolidated revenues. Healthy accruals, along with limited debt-funded capital expenditure undertaken by the Group in the recent years, have resulted in steady improvement in the Group's capitalisation and coverage indicators. Further, the Group enjoys healthy financial flexibility on the back of sizeable unencumbered liquid cash balances and investments of Rs. 503-crore as on March 31, 2017 as against consolidated debt of Rs. 55.85 crore as on March 31, 2017). Despite the proposed capital expansion plans, estimated healthy accruals are likely to support further improvement in the capitalisation ratios and liquidity position of the Group. The rating also continues to factor in the well-established brand of ICFAI, its national presence with over six ICFAI Business Schools (IBS), ten operational private state universities and one deemed university with over 15,000 yearly enrolments for various on and off-campus programs, IBSh's (ICFAI Business School Hyderabad) position amongst the reputed business schools in the country and the experienced management team of the institute.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>3</sup> located at Hyderabad, Bangalore, Gurgaon, Ahmedabad, Mumbai, Pune and Kolkata

The rating, however, continues to factor in modest operational performance of most of the state private universities which continue to report operational losses, thereby resulting in continued dependence on the sponsor – The ICFAI Society. Apart from this, the ICFAI Society has also extended advances to other Group-related entities. The quantum of advances extended to these entities has remained stable and comfortable in relation to cash accruals generated by the Group in the past. The rating is also constrained by the Group’s high revenue concentration on its flagship institute, IBSH (operated by IFHE) which accounted for ~46% of the revenues in FY2017, continued weak enrolments for engineering and Flexible Learning Programs. Though the key institutes continue to report healthy placement track record for their management programs, ensuring the same going forward given the large and increasing batch size together with faculty retention given the increasing competition in higher education segment would remain key challenges for the group. The Group remains exposed to regulatory risks which had impacted its performance in the past and during the current fiscal. (IUS, which has discontinued offering distance learning program during the current fiscal following the changes in the state regulatory framework).

### Outlook: Stable

ICRA expects ICFAI to continue to benefit from its established brand position in the management education sector with healthy enrolments witnessed across the key B-Schools managed by the group. The financial profile of the group is likely to remain strong given the large cash balances and expected steady accruals over the medium term. The outlook may be revised to 'Positive' upon sustained growth in revenue and earnings. The outlook may be revised to 'Negative' upon any considerable debt-funded capital expenditure or there is substantial increase in the advances extended to the Group entities.

### Key rating drivers

#### Credit strengths

**Pan-India presence with well-established brand for the flagship B-School and experienced management team** – The group has a national presence with seven ICFAI Business Schools (IBS), ten operational state private universities and one deemed university operating institutes at over 17 locations in India with a large student base of over 15,000 enrolled per annum for various on and off-campus program, lending stability to the Group’s revenues and earnings. The Group’s flagship B-School in Hyderabad is positioned among the reputed business schools in the country with its management team having close to three decades of track record of operations, supporting the performance of the institute.

**Healthy enrolments in key B-Schools** – The enrolments at the flagship institute, IBSH, have remained healthy at over 1100 in the recent years, while that in six other key B-Schools of the Group have been on a steady rise with enrollments of over 2,500 during the current fiscal. With these institutes being the major revenue contributors (76% of the revenues for the Group in FY2017), healthy enrollments in these institutes has supported steady growth in revenues and earnings for the Group.

**Healthy financial profile** – The Group’s financial profile is characterised by robust accruals, conservative capital structure and strong coverage indicators. Further sizable liquid investments provide financial flexibility to the Group.

## Credit challenges

**High revenue concentration** – The revenues for the Group remain concentrated on a single institute – IBSH, which accounted for 46% of the Group’s revenues in FY2017. Further 80-85% of the Group’s revenues continue to be accounted by the key B schools with minimal contribution from the state private universities (some which continue to report losses from operations). Demonstrated track record of the B-Schools lends stability to revenues and earnings.

**Maintaining placements and faculty retention in light of increasing competition** – Given the large student base and increasing competition in the higher-education segment, ensuring 100% placements and thereby attracting students and faculty retention remains a key challenge for the Group. Demonstrated track record of healthy enrolments and placement levels at above 90% over the years, for the management courses, provides comfort.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Higher Education Sector](#)

## About the entity:

The ICFAI society (erstwhile The Institute of Chartered Financial Analysts of India Society (ICFAI)) 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, ICFAI added several courses under different institutions and universities. Subsequently, the three key not-for-profit entities, namely, ICFAIAN Foundation, ICFAI Academy and ICFAI Foundation for Higher Education (IFHE) started offering these courses at undergraduate and post-graduate levels. ICFAI Academy ceased operations from FY2011.

The IFHE governs the IBS (ICFAI Business School), Hyderabad campus. Having been awarded the Deemed-to-be-University status in December 2008, the foundation confers its own degree for various courses. The ICFAIAN Foundation covers operations of five IBS centres (IBS Bangalore transferred to The ICFAI Society from FY2016) that are located across India. 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. Some of these universities that are self-sufficient in funding their own operating expenses, receive financial support from ICFAI towards infrastructure/campus development. For others, ICFAI supports funding shortfall to meet both operating expenses and capital expenditure requirements in case of newly-established universities.

### Key financial indicators (audited)

	FY2016	FY2017
Revenue Receipts (RR, Rs. crore)	367	420
Net surplus (Rs. crore)	158	164
Operating Surplus (OS)/ RR (%)	42.9%	42.1%
RoCE (%)	15.0%	15.7%
Total Debt/ Corplus and Surplus Fund (times)	0.11	0.05
Total Debt/ OS (times)	0.69	0.31
Interest coverage (times)	7.63	20.00
NWC/ OI (%)	0%	3%

Source:

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years:

Instrument	Type	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Feb 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
1 Term Loans	Long Term	48.72	28.97*	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2 Unallocated Limits	Long Term	261.28	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	

\*As on March 31, 2017

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2011	-	FY2019	8.10	[ICRA]A (Stable)
NA	Term Loan 2	FY2010	-	FY2018	0.92	[ICRA]A (Stable)
NA	Term Loan 3	FY2015	-	FY2019	6.70	[ICRA]A (Stable)
NA	Term Loan -4	FY2015	-	FY2024	33.00	[ICRA]A (Stable)
NA	Unallocated Limits		-	-	261.28	[ICRA]A (Stable)

Source: The ICFAI entities

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit [www.icra.in](http://www.icra.in)

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