

Sri Ramachandra University Trust

March 16, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund based – Term loan	125.00	125.00	[ICRA]A+ (Stable); reaffirmed

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A+ (pronounced ICRA A plus) to the Rs. 125.00-crore term-loan facility of Sri Ramachandra University Trust (SRUT). The outlook on the long-term rating is Stable.

Rationale

While arriving at the rating, ICRA has consolidated the financials of SRUT with Sri Ramachandra Educational and Health Trust (SREHT), the parent trust – given the strong operational and financial linkage between the trusts.

The rating reaffirmation takes into account the established track record of the university, spanning more than three decades, and the strong reputation of its medical college which aids in maintaining healthy year-on-year enrolment levels for its medical as well as para-medical courses. The rating continues to take into account the strong financial profile of SRUT and SREHT, characterised by healthy capital structure backed by healthy accretion to reserves and healthy debt-protection indicators. The rating is also supported by stable cash flows derived from both SREHT's hospital and the inherent stability of income associated with the medical college of SRUT. These apart, the ratings also factor in the strong liquidity profile of the trusts at the consolidated level, supported by substantial cash and liquid investments of around Rs. 370.0 crore as on December 31, 2017.

However, the rating is tempered by the high reliance on the university's revenue from medical courses, which accounted for around 60% of the revenues for the financial year ended March 31, 2017 with revenues from the para-medical courses and the university hospital remaining modest. In addition, the rating remains constrained given the trust's continuous need to incur capital expenditure to maintain and expand its infrastructure facilities. ICRA also notes SRUT's capital-expenditure plans to foray into various other fields of education including engineering, agriculture and ayurvedic science towards which the trust is likely to incur sizable capital expenditure in the near to medium term. This apart, SREHT also has sizable capital expenditure plans in the near term towards expansion of its multi-speciality hospital in other regions. Nevertheless, these plans are at a very nascent stage and the timelines have not been finalised. Further, the rating takes into consideration the significant competition in the medical education and healthcare sectors which add pressure in attracting and retaining faculty/doctors as well as talented students over the long term. These apart, given that the education sector is highly regulated in India, the university is exposed to significant regulatory risks associated with the stringent compliance requirements of the Medical Council of India and other relevant regulatory authorities.

Outlook: Stable

The Stable outlook reflects ICRA's belief that SRUT will continue to benefit from its highly reputed medical college and the brand image of SREHT's hospital, supporting healthy revenue growth and profitability on a year-on-year basis. The outlook may be revised to 'Positive' if the targeted capital expenditure plans fructify and lead to healthy diversification of revenue streams while maintaining its capital structure and debt-protection indicators. The outlook may be revised to 'Negative' if there are any instances of regulatory issues resulting in adverse impact on the group's operational and/or financial profile.

Key rating drivers

Credit strengths

Long and established track record of the medical college for nearly three decades with a strong reputation in India - SRUT has presence in the medical education sector for the past three decades. It has steadily scaled up and transformed into a full-fledged university with eight constituent colleges offering around 100 courses in the health care sciences and operates Sri Ramachandra University Hospital ("the university hospital") – a 1,400-bed subsidised tertiary care unit. SRUT derives a major portion of its income from college tuition receipts with fee from medical courses forming a major share of around 60% of the revenues. SRUT's medical college ranking is #39 in 2017, improved from #41 in 2016 by the National Institutional Rating Framework (NIRF) by the Ministry of Human Resource Development (MHRD).

Significant operational and financial support from SREHT - Though SRUT is exposed to revenue concentration from medical courses, it derives significant operational and financial support from SREHT, the primary income source of which is from hospital run on commercial terms and generates stable cash flows owing to its high reputation in Tamil Nadu. SREHT's commercial hospital operates a separate 700-bed super-specialty hospital within the same campus. The trust has generated a sizeable surplus over the years. Both SRUT and SREHT are managed by the same trustee group.

Stable cash flows underpinned by the healthy enrolment levels - On the back of strong demand for its medical and dental courses, given the reputation of the colleges, the enrolment levels have been healthy at 100% for its MBBS course on a year-on-year basis. The enrolment levels for post-graduate medical courses, and paramedical courses were also healthy at around 99% on the back of growing awareness among the students about the new courses in the allied health services, nursing and sports medicine. Given the healthy enrolment rates in both medical and paramedical courses, the trust generates stable cash flows from the college-fee income which constitutes the majority (90%) of the total income of the trust's income.

Robust financial profile supported by healthy capital structure and coverage indicators – At the consolidated level, the group has a favourable capital structure with low gearing of 0.15 times as on March 31, 2017. With minimal external borrowings, the group's coverage indicators were healthy and the group has a large cash reserve of Rs. 462.0 crore as of March 31, 2017.

Favourable long-term outlook for higher education in India – SRUT's medical college is one of the few colleges having a maximum annual intake of 250 seats approved by Medical Council of India (MCI). With the current demand-supply gap for medical seats in India, and with growing demand for medical seats, the outlook for higher education in the medical segment is favourable.

Credit challenges

Revenue remains dependent on medical courses to a significant extent – SRUT’s main source of income is from college receipts, especially from tuition fees that constitute around 90% of the same. Out of the total tuition receipts, fee from medical and dental courses generally form a major share of around 80%. The increase in student intake in medical courses has been capped at the current levels as the same is regulated by the University Grants Commission (UGC) and MCI.

Significant capital expenditure plans in SRUT and SREHT, although timelines have not yet been firmed up – SREHT has a sizable capital expenditure of Rs. 200-400 crore planned in the next three years towards construction of a multi-speciality hospital. This apart, SRUT also has plans to expand its horizon to other fields of education including engineering, agriculture, ayurvedic medicine, etc. in the medium term. However, the capex project is at a nascent stage and the timelines for the same has not yet been firmed up by the Group.

High competition from other reputed multi-speciality hospitals – Around 50% of the consolidated revenues come from SREHT’s multi-speciality hospital where the revenue growth is a factor of both increase in volume of inpatients and revenue per bed day from inpatients. The hospital faces stiff competition from other reputed multi-speciality hospitals in Chennai which restricts its pricing flexibility to an extent.

Regulatory risk associated with institutions operating in medical education segment with strict compliance requirements - The education sector is highly regulated in India and SRUT’s medical college is exposed to significant regulatory risks associated with the stringent compliance requirements of the Medical Council of India and other relevant regulatory authorities.

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

Links to applicable criteria:

[Hospitals](#)

[Higher education](#)

[Financial consolidation and rating approach](#)

About the company:

Sri Ramachandra University Trust (SRUT), a private not-for-profit institution, operates Sri Ramachandra University (the university). It was established by late Mr. N.P.V. Ramasamy Udayar with focus on medical education, research and healthcare and the university runs eight constituent colleges offering around 100 courses in the healthcare sciences with nearly 4,000 students receiving education and training within the university campus. This apart, SRUT also operates Sri Ramachandra University Hospital (the university hospital) – a 1,400-bed subsidised tertiary-care facility located within the campus to cater to the learning and training needs of the students of the university where over 3,500 patients seek healthcare in the state-of-the-art academic medical centre every day. The campus is located at Porur, Chennai spread across a land area of 175 acres with a built-up space of around 50 million sq.ft.

Sri Ramachandra University was initially established in 1985 as Sri Ramachandra Medical College and Research Institute (SRMCRI), under Sri Ramachandra Educational and Health Trust (SREHT). In 2012, the university and the associated teaching hospital were demerged to form SRUT as per the University Grants Commission guidelines, 2010. SRHET continues to operate a separate 700-bed super-specialty hospital. Mr. V.R. Venkataachalam, son of Late Mr. N.P.V. Ramasamy Udayar is the Chancellor of the University at present and is also the Managing Trustee of both the Trusts.

In FY2017, the trust reported a net surplus of Rs. 41.18 crore on an operating income of Rs. 303.55 crore compared to a net surplus of Rs. 13.23 crore on an operating income of Rs. 256.20 crore in the previous year.

In FY2017, at the consolidated level, the Group reported a net surplus of Rs. 144.12 crore on an operating income of Rs. 609.94 crore compared to a net surplus of Rs. 104.78 crore on an operating income of Rs. 543.36 crore in the previous year.

Key financial indicators (audited) - SRUT

	FY 2016	FY 2017
Operating Income (Rs. crore)	256.20	303.55
PAT (Rs. crore)	13.23	41.18
OPBDIT/ OI (%)	11.02%	18.04%
RoCE (%)	9.95%	19.40%
Total Debt/ TNW (times)	1.31	0.74
Total Debt/ OPBDIT (times)	4.62	2.04
Interest coverage (times)	3.27	10.06
NWC/ OI (%)	-42.53%	-27.51%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			Date & Rating in FY2015
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016		
				Mar 2018	Jan 2017	Nov 2016		
1 Term Loan	Long Term	125.00	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	-	

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

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	Mar 31 2015	-	Mar 31 2021	125.00	[ICRA]A+(Stable)

Source: SRUT

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