

September 29, 2021

Yenepoya (Deemed to be University): Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	55.00	55.00	[ICRA]BB+ reaffirmed; Outlook revised to Stable from Negative
Long-term Fund-based - Overdraft	10.00	10.00	[ICRA]BB+ reaffirmed; Outlook revised to Stable from Negative
Short-term Non-Fund based – Bank Guarantee	5.00	5.00	[ICRA]A4+ reaffirmed
Total	70.00	70.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook to Stable follows the improvement in operating and financial profile of the university in FY2021 and ICRA's expectations that the same is likely to sustain going forward. The operating income of the university grew by 11.4% YoY to ~Rs. 306 crore in FY2021 leading to an increase in operating margins to 14.2% in FY2021 from 12.7% in FY2020. The Stable outlook also factors in improvement in the university's liquidity position, notwithstanding the increase in receivables.

The ratings reaffirmation factors in the established presence and reputation of Yenepoya (Deemed to be University) (YDU) in and around Mangalore, especially in the field of medical education. The ratings continue to positively factor in healthy enrolment levels across all courses, especially in the flagship medical and dental science courses, and the healthy growth in operating income of the university on the back of addition of new courses offered, increase in batch sizes for select courses and periodic revision in fee structure. The ratings also take into account the significant autonomy enjoyed by YDU over its fee structure and admission criteria due to its recognition as a deemed to be university. The ratings are further supported by comfortable capital structure and improvement in coverage indicators of YDU.

The ratings, however, are constrained by the mismatch in the timing of cash flows as the fee collections are concentrated in a few months, necessitating prudent cash flow management to ensure regular debt servicing. The ratings also take into account the increasing advances extended to its sponsoring trust, Islamic Academy of Education, which pressurizes its liquidity and restricts the financial flexibility of YDU. The ratings continue to be affected by the regulatory risks faced by the university, which are typical of self-financing higher education institutions, and the intense competition in the sector resulting in pressure to attract students and attract and retain quality faculty. The ratings are further constrained by increase in fee receivables from students due to Covid-19 pandemic and its consequent impact on liquidity. ICRA also notes that YDU is required to undertake capital expenditure on a regular basis to upgrade its facilities and infrastructure in order to maintain its reputation as a top institute.

Key rating drivers and their description

Credit strengths

Established reputation and experience of Yenepoya group in the higher education sector – Yenepoya (Deemed to be University) has a proven track record of over 10 years in managing educational institutions. It has been ranked in the 101-150 basket in the NIRF 2021 university rankings. The Yenepoya Dental College has been ranked high at 21 in the NIRF 2021 rankings for dental colleges. The university chancellor Mr. Yenepoya Abdulla Kunhi possesses vast experience of nearly three decades in managing group companies operating in industries such as timer, real estate, education, social welfare, etc.

Healthy enrolment levels together with addition of new courses and increase in batch size support revenue visibility – The university has been recording healthy enrolment levels of more than 90% for the last three academic years till AY 2021-22. The medical and dental college which offer the flagship under graduate and post graduate courses recorded full occupancy over the last four academic years, thus contributing a major portion of the university's revenues. Over the last two academic years, the university has added 10 new courses in the arts, commerce and management college and 20 new courses in the para-medical college leading to increase in student intake. The Yenepoya Medical College has also increased its batch size for the flagship post-graduate courses. ICRA derives comfort from the increased revenue visibility due to the healthy demand for the courses offered by the university.

Comfortable financial and operating profile characterised by healthy coverage indicators and low gearing – The university's gearing further improved and remained comfortable at 0.7 times as on March 31, 2021 from 0.9 times as on March 31, 2020 owing to healthy accruals and improvement in profitability despite undertaking significant and consistent capital expenditure. The interest coverage also improved to 4.8 times for FY2021 from 4.1 times in FY2020. The operating profitability of YDU increased by 150 bps YoY at 14.2% for FY2021.

Significant autonomy enjoyed by the University – The university enjoys considerable autonomy in fixing its own fee structure and filling its sanctioned seat strength by virtue of it being recognised as a Deemed University and minority education institution. Apart from the MBBS course where ~12 seats have been reserved for admission through Government quota, no other course has any seat reserved under any quota. Further, the university fixes its fee structure on the recommendation of an internal committee which undertakes periodic fee revisions.

Credit challenges

Mismatch in timing of cashflows and increase in receivables – The university receives majority of its cash inflows from students in the form of fees during the few months at the beginning of the academic year. The academic year for under-graduate courses begins in June-August and the of post-graduate courses begins in April-May. This leads to dependence on short-term borrowings during the period of low collections coinciding with the months of December-March. However, as a result of the pandemic, the fee receivables has significantly gone up to ~Rs. 53 crore as on March 31, 2021 from ~Rs. 32 crore as on March 31, 2020. The university has faced delays in payment of fees by the students due to economic hardships because of the pandemic and timely recovery of fees remains critical factor for the ratings.

Continued financial support to the sponsoring trust leads to pressure on liquidity – The university has extended significant advances to its sponsoring trust, Islamic Academy of Education (IAE), amounting to ~Rs. 68 crore as on March 31, 2021. The financial support is extended to IAE for meeting its operating expenses and debt repayment obligations. The continued financial support has led to pressure on the university's liquidity and increased its dependence on debt for capital expenditure. Given the weak operating performance of IAE, ICRA expects the support from Yenepoya (Deemed to be University) to continue in the near term. The quantum of incremental advances to IAE remains a key rating factor.

Significant capex requirements for upgradation of facilities – The university incurred capex to the tune of ~Rs. 20 crore in FY2021 and ~Rs. 32 crore in FY2020 mainly on import and upgradation of medical equipment, construction of new hostel complex and regular maintenance of facilities. ICRA expects the university to continue to spend ~Rs. 15-20 crore per annum on upgradation of equipment especially in the medical and dental college to maintain the attractiveness and reputation of its flagship courses.

Susceptibility to regulatory changes – The higher education sector in India is highly regulated thus exposing the university to any regulatory changes in the future. The university's various colleges/courses must abide by the rules framed by various regulatory bodies including Medical Council of India, Dental Council of India, Indian Nursing Council, etc. Further, the university is subject to annual review by the University Grants Commission.

Intense competition in the higher education sector – The university faces stiff competition in attracting students and top faculties due to the presence of a large number of quality institutions in and around Mangalore. However, the risk is partly

mitigated by the reputation enjoyed by the Yenepoya University and the favourable demand-supply gap in its flagship courses in the medical and dental science disciplines.

Liquidity position: Adequate

YDU's liquidity is expected to remain Adequate over the near term. The university had cash and liquid investments of ~Rs. 14 crore on March 31, 2021 against external debt of ~Rs. 108 crore. ICRA expects the university to generate cash flow from operations to the tune of ~Rs. 40-45 crore per annum over the next three years against term debt repayment obligations of ~Rs. 7 crore in FY2022 and ~Rs. 9-11 crore in FY2023 and FY2024. The cash accruals are expected to be adequate to fund the university's capex of ~Rs. 15-20 crore per annum. ICRA also derives comfort from the moderate utilization of working capital limits by the university which averaged 44% over the 15-month period ending August 2021.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a sustained growth in revenues and earnings backed by improvement in liquidity

Negative factors – Negative pressure on the rating could arise for reasons including new advances to group entities, higher than expected capital expenditure or delay in collection of receivables leading to weakening of the liquidity profile on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Higher Education Sector
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on standalone financial statements of the company

About the company

Yenepoya (Deemed to be University) is a registered trust established in 2008 with the objective of running a private university. It was granted recognition as a deemed to be university by the UGC in February 2008 and was recognised as a minority education institution in 2011. It currently operates 10 constituent institutes offering 88 courses in multiple disciplines ranging from medical and dental science to arts, commerce and management.

The trust is sponsored by Islamic Academy of Education (IAE), another registered trust, which currently operates an educational institute affiliated to Visvesvaraya Technological University, Belgavi. The trusts are promoted by Yenepoya Group of Companies which has varied interests in fields such as education, healthcare, timber, hospitality, trade, etc.

Apart from teaching colleges, the university also operates hospitals as a part of the medical, dental, Ayurveda and homeopathy colleges. The flagship courses offered by the university include under-graduate and post-graduate courses in medical science and dental science.

Key financial indicators (provisional)

LTHL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	274.9	306.1
PAT (Rs. crore)	11.1	17.4
OPBDIT/OI (%)	12.7%	14.2%
PAT/OI (%)	4.0%	5.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.5
Total Debt/OPBDIT (times)	3.2	2.5
Interest Coverage (times)	4.1	4.8

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 Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in Sept 29, 2020	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Term Loans	Long-term	55.0	82.6	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	-	[ICRA]BB+ (Stable)
2	Overdraft	Long-term	10.0	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	-	[ICRA]BB+ (Stable)
3	Bank Guarantee	Short-term	5.0	-	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term Fund-based - Overdraft	Simple
Short-term Non-fund based – Bank Guarantee	Very 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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan-I	NA	NA	FY2028	47.7	[ICRA]BB+ (Stable)
NA	Term Loan-II	NA	NA	FY2022	6.0	[ICRA]BB+ (Stable)
NA	Term Loan-III	NA	NA	FY2022	1.3	[ICRA]BB+ (Stable)
NA	Overdraft	NA	NA	NA	10.0	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	5.0	[ICRA]A4+

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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