

May 27, 2022

Vellore Institute of Technology – Andhra Pradesh: [ICRA]A- (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loans	430.00	[ICRA]A- (Stable); assigned
Total	430.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably considers the sustained increase in the scale of operations of Vellore Institute of Technology-Andhra Pradesh (VIT-AP) since its establishment in 2016. The university started accepting students from AY2018 with 586 admissions. The number of admissions has grown substantially to ~3,500 admissions in AY2022 with total strength of ~7,100 students. The rating derives comfort from the strong brand name of Vellore Institute of Technology (VIT; rated [ICRA]AA(Stable)), which is expected to aid VIT-AP in attracting meritorious students in new geographies like Andhra Pradesh and establish itself as a premier centre for higher education in the region owing to the widely accepted curriculum and best practices of VIT. Long experience of the managing trustees (common to both VIT and VIT-AP) for over three decades in the field of education provides further comfort to the rating. The rating positively considers the high degree of autonomy enjoyed by VIT-AP in deciding its fee structure and introducing new courses owing to its status as a state-private university. VIT has a demonstrated track record of extending financial support in the form of donations to VIT-AP to aid in meeting the high capital expenditure requirements in the initial years of the university. ICRA expects VIT to be willing to extend support to VIT-AP, given the high reputation sensitivity, operational and managerial linkages and strategic importance of the entity, which have been positively considered in the rating.

The rating is, however, constrained by the leveraged capital structure and sizeable capital expenditure planned by the university over the medium term. VIT-AP's gearing stood at 1.2 times while Total Debt/OPBDITA and TOL/TNW stood at 6.1 times and 1.2 times, respectively, as on March 31, 2022 (provisional), reflecting a leveraged capital structure on the back of the term debt to fund the initial capital expenditure. Further, the university has a substantial capital expenditure plan of ~Rs. 150 crore per annum over the medium term towards construction of campus infrastructure, which is expected to be funded through internal accruals and donations from VIT. The rating also considers the high reliance of the university on engineering courses, which accounted for more than 90% of total admissions over the last five academic years. However, introduction of non-engineering courses from AY2022 is expected to lend some diversity to VIT-AP's operational profile, albeit over the long term. Further, VIT's established reputation in engineering education is likely to aid in healthy enrolment levels despite a muted outlook for engineering courses in the country currently and intense competition from other government and private institutions. The rating also factors in the significant regulatory risks as the higher education sector in India is highly regulated with stringent compliance requirements. However, such risks are partly mitigated by VIT-AP's status as a state private university.

The Stable outlook on the rating reflects ICRA's opinion that the university will continue to benefit from healthy enrolment levels and increase in sanctioned intake, as the university matures in the medium term, translating into improved scale of operations and healthy liquidity profile.

Key rating drivers and their description

Credit strengths

Substantial autonomy due to status as state private university and brand name of VIT – VIT-AP has considerable degree of autonomy with respect to introducing new courses and deciding its fee structure due to its recognition as a state private university in Andhra Pradesh. This provides it with a high degree of operating flexibility. Additionally, the university shares the brand name of VIT which has, over the last three decades, established itself as one of India's premier higher education institutions. The high brand recall value of VIT, especially in engineering education, and its established reputation are likely to aid VIT-AP in attracting meritorious students.

Consistent improvement in scale of operations driven by increasing student strength and healthy enrolment levels – VIT-AP started accepting students from AY2018 with 586 admissions. This has consistently improved over the years to ~3,500 admissions in AY2022, driven by introduction of new courses, increase in sanctioned seat strength and healthy enrolment levels of above 80%. Going forward, ICRA expects the university to continue to improve its scale of operations by introducing new courses and increasing sanctioned seat strengths, in line with the built-up of physical infrastructure of the campus.

Strong linkages and support from VIT – VIT-AP has strong operational and financial linkages with VIT. It admits students through the common entrance exams conducted by VIT and follows a similar curriculum and teaching pedagogy as it has wide acceptance in the teaching community. Further, the placements of students of VIT-AP are conducted together with VIT. Additionally, VIT has a demonstrated history of providing financial support in the form of donations to VIT-AP, aggregating to ~Rs. 500 crore over the last four years, which has been largely utilised towards capex. ICRA expects VIT to continue to extend support to VIT-AP through donations which are expected to aid the latter's liquidity position.

Credit challenges

Moderately leveraged capital structure – VIT-AP has a moderately leveraged capital structure, characterised by a gearing and TOL/TNW of 1.3 times and 1.4 times, respectively, as on March 31, 2021. With the expectations of an improvement in the university's scale of operations going forward, the capital structure is likely to improve.

Nascent stages of set up of university; sizeable capex requirements – VIT-AP incurred a capex of ~Rs. 103 crore in FY2022 (provisional) and ~Rs. 166 crore in FY2021, largely towards construction of campus infrastructure including academic blocks, student hostels and faculty residences. With the university still in the nascent stages of operations, ICRA expects VIT-AP to have sizeable capex requirements to the tune of ~Rs. 150 crore per annum over the next 2-3 years. This is expected to be funded partly through internal accruals and partly through donations from VIT.

High concentration of revenue in engineering education – The university's revenue is highly concentrated in the engineering education with engineering courses accounting for 92% of admissions in AY2022. This exposes the university to the risks emanating from changing preferences of students. Introduction of new courses in non-engineering streams is likely to aid in diversification of revenues in the long term.

Intense competition and vulnerability to changing regulations – VIT-AP faces intense competition from other reputed public and private institutions in India, which puts pressure on attracting meritorious students and retaining accomplished faculty members. However, the established brand of VIT is likely to aid the university. Moreover, the higher education sector in India is highly regulated by numerous bodies including the University Grants Commission, All India Council of Technical Education, among others, which have stringent compliance requirements. This exposes the university to significant regulatory risks associated with unanticipated changes in regulations, which might have an adverse impact on its operating and/or financial profile.

Liquidity position: Adequate

VIT-AP's liquidity profile is Adequate, as reflected by free cash and liquid investments of ~Rs. 92 crore as on March 31, 2022 (provisional). ICRA expects the university to generate cash flow from operations in the range of Rs. 60-100 crore per annum over the medium term against moderate debt repayment obligations of Rs. 10 crore in FY2023, Rs. 20 crore in FY2024 and Rs. 30 crore in FY2025. VIT-AP has an annual capital expenditure plan of ~Rs. 150 crore over the next 2-3 years. A steady growth in student intake coupled with healthy enrolment levels and need-based financial support in the form of donations from VIT are expected to aid VIT-AP's liquidity profile in the medium term.

Rating sensitivities

Positive factors – The rating maybe upgraded if there is a sustained improvement in the university's scale of operations and diversification of revenues, translating into a healthy liquidity profile on a sustained basis. Specific credit metrics which could result in a rating upgrade include interest cover higher than 4.0 times on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is a substantial decline in enrolment levels and/or fee collection, adversely impacting the university's financial profile or liquidity position. Weakening of linkages or support from Vellore Institute of Technology, significant debt-funded capital expenditure or regulatory developments adversely impacting the university's financial or operating profile could also result in a rating downgrade. Specific credit metrics which could result in a rating downgrade include TOL/TNW above 1.5 times 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	Parent/Group Company: Vellore Institute of Technology [rated [ICRA]AA(Stable)] ICRA expects VIT to extend financial support to VIT-AP towards its capex and debt servicing requirements given its strategic importance to VIT and out of its need to protect its reputation.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financial profile of VIT-AP

About the company

Vellore Institute of Technology – Andhra Pradesh (VIT-AP) was established in 2016 as a state private university in Andhra Pradesh. It offers undergraduate, postgraduate and doctoral programmes in various fields including engineering, sciences, commerce and management. Its campus is spread over 100 acres in Amravati, near Vijayawada. The university started accepting students from AY2018 with 586 admissions. The number of admissions has grown substantially to ~3,500 admissions in AY2022 with a total strength of ~7,100 students. The university shares close operational and managerial linkages with Vellore Institute of Technology (rated [ICRA]AA (Stable)).

Key financial indicators (audited)#

Vellore Institute of Technology – Andhra Pradesh	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	94.7	103.8	155.9
PAT (Rs. crore)	61.1	131.2	39.5
OPBDIT/OI (%)	30.3%	53.3%	45.9%
PAT/OI (%)	64.6%	126.3%	25.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.4	1.2
Total Debt/OPBDIT (times)	13.9	7.8	6.1
Interest Coverage (times)	0.9	1.4	2.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional

#The financial statements have been adjusted for depreciation and amortisation by ICRA

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 27, 2022			
1	Term Loans	Long-term	430.00	430.00	[ICRA]A- (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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Term Loans	FY2017	NA	FY2032	430.00	[ICRA]A- (Stable)

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis – N.A.

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