

July 29, 2022

## Punjabi University, Patiala: 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	120.0	120.0	[ICRA]BB (Stable); reaffirmed; outlook revised to Stable from Negative
<b>Total</b>	<b>120.0</b>	<b>120.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the rating outlook of Punjabi University, Patiala (PUP) primarily considers increased support from the Government of Punjab (GoP) in the form of general and special grants. Further, the ratings continue to draw comfort from the strategic importance of PUP to the GoP as an institution, with the main objective of furthering the cause of Punjabi language and culture in the state. The rating also draws comfort from the university's strong linkages with the state government. It also has strong administrative linkages with the Government in terms of appointment of the syndicate members, university staff and various other functional approvals as it is a state university established by the Punjab Government.

The rating, however, remains constrained by PUP's modest financial profile, characterised by stagnant revenues and increasing costs, which are unlikely to improve in the near-to-medium term. The rating is also impacted by the moderate credit profile of the state government, which transfers various grants to PUP through annual budgetary provisions. While the costs (mainly salary and pension for the university employees) have been increasing consistently, PUP was unable to hike fee after FY2007. A marginal fee hike was implemented in FY2022. The university does not have any autonomy over the fee revision and is required to get the same approved by the syndication committee. Given the resultant and sustained revenue deficits, the liquidity position of PUP has remained stretched, as reflected by large dues outstanding towards employees over the years. The rating is further constrained by geographical concentration of PUP's operations in and around Patiala, further accentuated by the stiff competition posed by other private universities and state universities in nearby regions.

The Stable outlook on the [ICRA]BB rating reflects PUP's strong linkages with the state government, as reflected by regular transfer of revenue grants and special grants to support the university's functioning, as well as revision of ICRA's outlook on the rating of GoP. However, ICRA notes that the timeliness and adequacy of such transfers remain concern areas, which limit PUP's ability to timely meet all its committed expenses.

### Key rating drivers and their description

#### Credit strengths

**Strategic importance of PUP to GoP** – PUP is strategically important for the GoP to further the cause of Punjabi language and culture in the state. The state government funds various research projects and chairs in the field of Punjabi language/culture through PUP's institutes from time to time.

**Strong support from state government** – The university gets financial support from the GoP in the form of various grants and exemptions. Since FY2019, GoP has also been providing special grants to PUP every year, however, continuity of the same is not certain for future years. Timeliness and adequacy of such transfers remain critical as it impacts PUP's ability to timely meet all its committed expenses.

## Credit challenges

**Modest financial profile** – The university’s fee revenues have consistently remained stagnant despite increasing fixed costs. The ensuing revenue deficits, delays in getting funding support from GoP and the resultant monthly cash flow mismatches (currently being funded from the infrastructure development fund) have kept PUP’s liquidity position stretched. This apart, pending payables towards employees’ allowances reflect the strain on the university’s liquidity position.

**Limited autonomy in fee hike** – Amid consistently increasing fixed costs including salaries of the staff, PUP’s inability to hike fees remains a concern. ICRA notes that PUP hiked tuition fee by 5% in FY2022 after 14 years. However, in the absence of an upward fee revision in the future, the university’s dependence on GoP’s support through discretionary grants would increase, resulting in more cash flow mismatches and deterioration in the university’s liquidity position.

**High geographical concentration and stiff competition** – The university faces stiff competition from other private universities as well as from other state government-promoted universities. PUP is also exposed to the high risk associated with geographical concentration of its operations in and around Patiala, which adversely impacts its growth.

## Liquidity position: Stretched

PUP’s liquidity position continues to be stretched due to regular mismatch in cash flows, sizeable past overdues against which PUP had Rs. 5.29 crore cash and bank balances available as on July 22, 2022 and almost fully utilised overdraft limits in the six-month period ending June 2022.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if there is sustained improvement in the fiscal balances on the back of control on the overall costing, thereby improving PUP’s liquidity position and leverage levels.

**Negative factors** – Continued sub-optimal revenues and high cost structure leading to a prolonged fiscal deficit, delayed and/or inadequate grants from the Government or weakness in the credit profile of GoP could lead to a negative rating action.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for State Governments</a>
Parent/Group Support	Parent: Government of Punjab
Consolidation/Standalone	Standalone

## About the company

Punjabi University, Patiala (PUP) was established by the state government in 1961. The university started operations in 1965 from its campus at Patiala. PUP has evolved to be the largest university in the state since its establishment for furthering the cause of Punjabi language, art and literature. Its vision is to establish and incorporate a university for the advancement of Punjabi studies and development of Punjabi language as a medium of instruction or otherwise for providing instruction in humanities and science subject and generally for the promotion of education and research.

Initially, the university’s operational area was within a 16-km radius from its campus in Patiala with only nine colleges under its ambit. In 1969, the university grew into an affiliating university, with 43 colleges affiliated to it. At present, the university caters to the educational needs of nine districts in Punjab. Since its inception, PUP has evolved into a multi-faculty university for the promotion of higher education and research in major areas such as humanities, arts, sciences, engineering and

languages. The university caters to nearly 35,000 students with more than 1,000 teaching staff across more than 70+ university departments/chairs, 27 regional centres/neighbourhood campuses/constituent colleges and 274 affiliated colleges.

#### Key financial indicators (provisional)

	FY2020	FY2021
Revenue Receipts (Operating Income) (Rs. crore)	348.5	342.1
Net Surplus (PAT) (Rs. crore)	-97.1	-75.8
Operating Surplus Margin (OPBDIT/OI) (%)	-17.2%	-7.1%
Net Surplus Margin (PAT/OI) (%)	-27.9%	-22.2%
Total Outside Liabilities/Tangible Net Worth (times)	38.8	*
Total Debt/Operating Surplus (times)	-2.2	-5.8
Interest coverage (times)	-5.6	-1.5

\*Not Available

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

Source: PUP

**Status of non-cooperation with previous CRA:** India Ratings and Research maintained the ratings for PUP's bank loans at 'IND BB (ISSUER NOT COOPERATING)', vide its release dated July 30, 2021, as the agency did not have adequate information to review the rating.

**Any other information: Not applicable**

#### Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
								July 29, 2022
1 Long-term/Fund-based	Long-term	120.00	--	[ICRA]BB (Stable)	[ICRA]BB (Negative)	No Rating Change	[ICRA]BB (Stable)	
2 Unallocated	Long-term	--	--	--	--	No Rating Change	[ICRA]BB (Stable)	

#### Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term/Fund-based	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: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Fund-based	-	-	-	120.0	[ICRA]BB (Stable)

Source: PUP

Annexure II: List of entities considered for consolidated analysis: Not applicable

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