

The ICFAI Society

Instrument	Amount In Rs. Crore	Rating Action
Fund based limits	81.43 (reduced from 148.87)	[ICRA]A- (Stable); upgraded
Unallocated/ Proposed Limits	228.57 (increase from 161.13)	[ICRA]A- (Stable); upgraded
Total	310.00	

Source: ICRA

ICRA has upgraded the long-term rating assigned earlier to the Rs. 310.00 crore¹ fund based and proposed/ unallocated bank facilities of The ICFAI Society (erstwhile The Institute of Chartered Financial Analysts of India) (ICFAI) to [ICRA]A- (pronounced ICRA A minus) from [ICRA]BBB+ (pronounced ICRA triple B plus) earlier². The outlook on the long-term rating continues to be Stable.

ICRA has taken a consolidated financial view of ICFAI along with its key associate entities like ICFAIAN Foundation (IF), ICFAI Foundation for Higher Education (IFHE), The ICFAI University Dehradun (IUD), The ICFAI University at Sikkim (IUS) and The ICFAI University Tripura (IUT). ICFAI acts as the holding entity and owns most of the group assets whereas the sponsored independent entities carry out academic activities and operational cash surpluses from these entities are transferred back to ICFAI, which are in turn used by ICFAI for debt servicing and funding expansion.

The rating-upgrade factors in a healthy improvement in business and financial risk profile of the society. The society has been reporting a healthy year-on-year increase in enrolments for the management courses offered by the seven ICFAI Business Schools³, which together account for ~80% of its consolidated revenues, facilitating healthy operating surpluses and cash accruals. This together with limited debt-funded capital expenditure undertaken by the society and use of surplus cash accruals for debt prepayments has resulted in a decline in quantum of consolidated debt to Rs. 107.26 crore as on 31st March 2016 from a peak level of ~Rs. 472.48 crore in FY11, thereby resulting in an improvement in society's capitalisation and debt coverage indicators in the recent years. Further as compared to a debt of ~Rs. 107.26 crore, the society had sizeable unencumbered liquid cash balances and investments of Rs. 255.47 crore in the form of fixed deposits as on 31st March 2016, which provides it financial flexibility. With moderate capital expansion plans in the near term, the coverage and leverage indicators are expected to improve further going forward.

Further while upgrading the rating, ICRA has also factored in a decline in society's contingent liabilities from Rs 261.01 crore as on 31st March 2015 to Rs 24.03 crore (2.2% of tangible net worth) as on 31st March 2016, with the favourable resolution of the ongoing service tax disputes, which has reduced the associated risks. 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 ~10,000 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.

The rating, however, continues to remain constrained on account of weak operational performance of seven out of the ten private state universities with increasing operational losses necessitating dependence on the sponsor – ICFAI. Few of these private universities are run despite very low enrolments. During FY 16, the total funding support to these seven universities increased by to Rs 136.0 crore from Rs. 118.5 crore as on 31st March 2015. On an average, the society has been extending advances of ~Rs. 15-20 crore per annum to these universities and other related entities. Although the quantum of advances extended in the past has remained comfortable in relation to cash accrual generation by the society, any significant increase in such advances could adversely impact the cash flows for ICFAI. The ratings are also constrained by high course concentration risk with one course (management) accounting for 80-85% of total fee receipts of the society and declining

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

³ located at Hyderabad, Bangalore, Gurgaon, Ahmedabad, Mumbai, Pune and Kolkata

enrolments for B. Tech and Flexible Learning Programs. Though the Institute has had a healthy placement track record for its MBA students, ensuring the same going forward given the large and increasing batch size together with faculty retention and ensuring an increase in enrolments in the B. Tech program will remain key challenges for the group given the increasing competition in higher education segment.

Going forward, the ability of the society to ensure healthy placements which in turn would help it maintain enrolments for management programs and improve admissions in other courses thereby reducing dependence on management courses, will be a critical determinant of its business risk profile. Further in ICRA's view, the society's ability to attain break even for newly established Universities and quantum of funding support extended to weaker entities in the group would remain the key rating sensitivities.

Society Profile

The Institute of Chartered Financial Analysts of India Society (ICFAI) was established as a not-for-profit society in 1984. It commenced its 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 centers (IBS Bangalore transferred to The ICFAI Society from FY2015-16 onwards) 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 their infrastructure/campus development. For other Universities, ICFAI also supports funding shortfall to meet operating expenses in case of newly established Universities.

Recent Results

As per the FY2016 audited financials, ICFAI's consolidated revenue receipts stood at Rs. 356.98 crore with an operating surplus of Rs 167.02 crore and net surplus of Rs 141.97 against revenue receipts of Rs 328.50 crore with an operating surplus of Rs. 168.13 crore and net surplus of Rs 136.83 crore for FY2015.

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