

Vellore Institute of Technology

March 16, 2018

Summary of rated instruments

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based -Term loan facilities	174.36	124.75	[ICRA]AA-(Stable); reaffirmed
Long term – Proposed facilities	145.64	195.25	[ICRA]AA-(Stable); reaffirmed
Total	320.00	320.00	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]AA- (pronounced as ICRA double A minus) to the Rs. 124.75 crore¹(revised from Rs. 174.36 crore) term loan facilities and Rs. 195.25.00 crore(revised from Rs. 145.64 crore) proposed long term facilities of Vellore Institute of Technology (VIT / the university)². The long term ratings carry a 'Stable' outlook.

Rationale

The rating reaffirmation favourably factors in the established brand equity of the Vellore Institute of Technology (VIT/the university) of over more than three decades, experience of the promoter, and its strong academic track record. The university attracts students across geographies (India and overseas) which reflects favorably on the strong demand potential for its courses as well as its reputation. The ratings are also supported by the healthy accruals and comfortable capitalisation indicators with gearing, total debt/OPBDITA and interest coverage ratio at 0.1 times, 0.5 times and 20.5 times respectively as on March 31, 2017. During FY2017, VIT paid Rs.129.5 crores to support set-up of two group trusts and campuses (VIT Bhopal, Madhya Pradesh and VIT Amravati, Andhra Pradesh); the investment was marginally higher than expected. Also, during FY2017 the trust paid a donation of Rs.280 crore to a charitable trust owned by one of the erstwhile trustees; leading to closure of the ongoing litigation and no further outflow on the same in expected. This lead to a deterioration in the financial profile with NCA/Total debt to falling to 11.2% as of March 2017 from peak levels of 157.8% as of March 2016. Despite the substantial payout, conservative capex of ~Rs. 150 crore per annum during the past three years had lead to a sizable cash build up of Rs.242.2 crore as on March 31, 2016, supported the payout from internal accruals. Further higher than expected accruals during YTD FY2018 have lead to an improvement in VIT's financial profile since FY2017.

The ratings factor in the university's continuous need to incur capital expenditure (Rs. 200 crore to Rs. 250 crore per annum) to maintain its infrastructural facilities. Nonetheless, ICRA also notes that the university's internal cash accruals will be able to support the expected scale of capex over the next 2-3 years and the dependence on additional term loans will be limited. The ratings remain constrained by higher donations over the next three years to support the new campuses at Andhra Pradesh and Madhya Pradesh (set up under new trusts given the statutory requirement for operation as State Private Universities). The ratings is also tempered by the high reliance of the university's revenue from B.Tech and M.Tech courses, which accounted for around 80% of the revenues for the financial year ended March 31, 2017 with the revenues from the other courses remaining modest. Further, the rating takes into consideration

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

the significant competition in higher education which could add pressure in attracting and retaining faculty 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 which is partly mitigated by the deemed university status.

Outlook: Stable

ICRA expects the student enrolments to remain healthy aided by the established reputation of VIT. The outlook may be revised to 'Positive' if the sustained growth in student additions aided by hike in fees, results in higher revenues and cash accruals from the current levels. The outlook may be revised to 'Negative' if higher donations or significant debt is taken to fund the capital expenditure plans leading to deterioration in the financial profile of the University.

Key rating drivers

Credit strengths

Established presence of the University for more than three decades, flexible curriculum and international accreditation aids in healthy enrollments -Founded in 1984, VIT is one of the well established education institutions offering higher education in India. VIT is accredited by Accreditation Board for Engineering & Technology (ABET), USA, ISO 9002 by Det Norske Veritas (DNV) of Netherlands and "A" by NAAC (National Assessment and Accreditation Council). VIT offers flexible curriculum to the students with a choice of any interdisciplinary course from other engineering schools resulting in healthy enrollment across wide range of courses offered (enrollments during FY2017 increased by 11% compared to FY2016, despite the planned reduction of 1,285 students in Chennai campus.

Strong geographic diversity of students and healthy placement track record reflect favorably on the university's reputation- The university attracts students across geographies (India and overseas) which reflects favorably on the strong demand potential for its courses as well as its reputation. The overall placement were healthy at ~81% during Academic Year (AY) 2016-2017 (Information Technology (IT) companies dominating the recruitments) with the remaining students opting for higher studies / entrepreneurship highlighting the acceptability of various domain-focused courses by the industry. 3% students received super dream offer (Cost to company (CTC) more than nine lakhs) and 22% students received dream offer (CTC of Rs. 4.45 lakhs – 9.0 lakhs) out of a batch size of 5,931 during AY2016-2017.

Capital structure and coverage metrics remain at comfortable levels; cash flows and liquidity remain adequate despite significant capital expenditure and repayment obligations- Despite the higher donations of Rs. 129.5 crore given to the proposed campuses (VIT Bhopal and VIT Andhra Pradesh) coupled with Rs.280 crore spent on the closure of litigation, the debt levels of the company has remained stable with comfortable gearing, total debt/OPBDITA and interest coverage ratio of 0.1 times, 0.5 times and 20.5 times respectively as on March 2017. However, the cash balances reduced from Rs.242.2 crore in FY2016 to Rs. 133.6 crore in FY2017 a lower albeit still healthy as on March 31, 2017.

Credit challenges

Deterioration in earnings due to higher donation to VIT Bhopal and VIT Amravati during FY2017- To increase its geographic reach the university set up two new campuses (VIT Bhopal and VIT Amravati) under new trusts to comply with the statutory requirement. The capital needs for expansion and loss funding requirements for the proposed campuses are partly met through the donations from VIT. These two trusts would require support from VIT over the next three years to support their establishment and stabilization.

Donation to a charitable trust - Donation of Rs.280 crore (expected Nil) was made to a charitable trust owned by the erstwhile trustee adversely impacted the financial profile for the financial year ended March 31, 2017, however the outflow was supported by healthy accruals and the trust's sizable cash balances.

Course concentration risk with B. Tech and M. Tech accounting for 82% of the intake in the university during AY 2016-17-Though there is high course concentration risk with B. Tech and M. Tech stream contributing to 82% of the intake, VIT offers diversified courses within the two streams which is evident from the fact that none of the streams (Schools) have more than 21% of total number of students admitted. The B. Tech courses offered by VIT is accredited by ABET, an international accreditation agency based out of USA and the same helps in attracting foreign students and aids in improving student diversity.

Intense competition from other reputed public and private institutes puts pressure on attracting and retaining talented students and faculty- VIT faces intense competition from other reputed public institutes (like Indian Institute of Technology, National Institute of Technology etc) and private institutes (like Manipal Academy of Higher Education (MAHE) Birla Institute of Technology and Science (BITS) Pilani and SRM University) in India and the same puts pressure on attracting and retaining talented students and faculty.

Vulnerability of margins to higher employee costs due to 7th pay commission – The University is required to maintain highly qualified teaching staff due to the various disciplines being offered under multiple streams. The University has a 1,676 permanent faculty members of which 1,091 faculty are doctorates. In FY2018, implementation of the recommendations of the 7th pay commission coupled with the decision not to increase fees for the AY2017-2018 could dent the margins.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the Trust:

VIT, established in 1984 by Dr. G. Viswanathan, is one of the established self-financed educational institutions in India offering higher education. The university offers courses in various branches of undergraduate, postgraduate and doctoral programs in engineering, science, business administration, hotel management, law and architecture. VIT was founded as Vellore Engineering College (VEC) in Vellore (Tamil Nadu), affiliated to University of Madras. In June 2001, VEC got the deemed university status from Government of India and was rechristened as VIT University. The Chennai campus of the university became operational from AY 2010-11. VIT conducts its own entrance examinations for undergraduate (VIT Engineering Entrance Examination, VITEEE) and postgraduate (VIT Masters Entrance Examination, VITMEE) programs and the admission is done on merit basis. The total student strength for AY2016-2017 stood at 34,000 students.

VIT Bhopal Trust was established in 2016 to set up a state private university in the state of Madhya Pradesh. VIT provides a letter of comfort to VIT trust Bhopal and the current rating outstanding is [ICRA]A(S). VIT laid the foundation stone in Amravati on November 03, 2016. Both the trusts have started operations with student intake for the AY 2017-2018.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	770.0	930.9
PAT (Rs. crore)	280.3	22.3
OPBDIT/ OI (%)	39.3%	44.5%
RoCE (%)	22.5%	2.8%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDITA (times)	0.6	0.5
Interest coverage (times)	11.3	20.5
NWC/ OI (%)	-38%	-35%

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		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating March 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 September 2015	
1	Term loan facilities	124.75	124.75	[ICRA]AA-/Stable	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	
2	Proposed facilities	195.25	195.25	[ICRA]AA-/Stable	[ICRA]AA-(Stable)	[ICRA]AA-(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
-	Term Loan	FY2012	9.45%	FY2019	4.75	[ICRA]AA- (Stable)
-	Term Loan	FY 2009	9.45%	FY2021	120.00	[ICRA]AA- (Stable)
-	Proposed facilities	-	-	-	195.25	[ICRA]AA- (Stable)

Source: Vellore Institute of Technology

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