MIT Art Design and Technology University

September 28, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – Term Loan	30.00	[ICRA]A- (Stable); Assigned
Long Term - Fund Based – Cash Credit	14.90	[ICRA]A- (Stable); Assigned
Total	**44.90**	

Rating action

ICRA has assigned a long-term rating of [ICRA] A- (pronounced as ICRA A minus) to the Rs. 30.0 crore long term fund-based term loan facility and Rs. 14.9 crore long term fund-based cash credit facility of MIT Art Design and Technology University (MIT ADT, the university). The outlook on the long-term rating is Stable.

Rationale

The assigned rating takes into consideration brand strength as well as financial flexibility enjoyed by MIT ADT, being part of the MIT Group wherein Maharashtra Academy of Engineering & Educational Research (MAEER; rated [ICRA]A+/ Stable) acts as a sponsoring body. The rating also factors in the good reputation and resultant healthy occupancy in the flagship institutes of MIT ADT i.e. Maharashtra Academy of Naval Education & Training (MANET) and MIT Institute of Design (MITIOD), which generate over 50% of the university's revenue. Further being a non-affiliated and self-financed university, MIT ADT enjoys operational and financial flexibility in deciding the syllabi as well as fee structures. The university is authorised to collect full fees from the reserved category students as well. Thus, the liquidity position remains comfortable as the cash flows are not dependent on recovery of receivables from any government body. The rating also factors in MIT ADT's healthy financial risk profile characterised by robust capital structure as on March 31, 2018 due to absence on any external debt.

The rating however remains constrained by moderate scale of operations at present as well as limited track record of the university. Though, the flagship institutes have an established track record of more than a decade under MAEER, majority of new courses were added in FY2018 which are yet to stabilise, as witnessed in their moderate occupancy levels in Academic Year (AY) 2017-18. The rating also factors in the continuous investment required in upgradation of infrastructure facilities in order to remain competitive; which leads to sizeable recurring capital expenditure. Nevertheless, ICRA notes that MIT ADT's internal accruals are likely to remain adequate limiting the dependence on external debt. The rating also considers the inherent risk associated with the highly regulated education sector. Any adverse government regulations may impact revenue growth and surplus. Further ability of the university to attract high quality students, given the intense competition from other reputed public and private institutes in the country as well as maintaining the quality of its teaching staff will remain essential.

The key sensitivity factors going forward include MIT ADT's ability to ramp up the occupancy levels of new courses by building reputation of the university.

Outlook: Stable

ICRA expects that MIT ADT will witness healthy revenue growth in the near term majorly contributed by increasing student base for its newly started engineering courses as well as addition of new batches under the university for the flagship courses of MANET. Further the university will continue to benefit from the strong parentage, being part of the MIT group. The surplus is expected to increase gradually due to likely absorption of fixed cost as the operations stabilise over the medium term. However, the investments towards infrastructure development and their mode of funding will remain critical for the credit risk profile of the university.

The outlook may be revised to 'Positive' if there is a substantial increase in occupancy across various courses due to early stabilisation of the operations leading to healthy surplus generation. Maintaining healthy liquidity position also remains critical for any positive change in the rating. The outlook may be revised to 'Negative' if any significant unanticipated debt funded capital expenditure deteriorates the liquidity position and credit matrix of the university. Further, under absorption of fixed cost and resultant pressure on surplus generation may also put downward pressure on the rating.

Key rating drivers

Credit strengths

Strong parentage of MAEER and operational as well as financial flexibility derived from the same –
The sponsoring body, MAEER, is a well-known education trust with an established presence since 1983 and has over 65 institutions providing education in diverse fields. The brand strength of MAEER extends benefits to MIT ADT university as well. Further, MAEER has provided a corporate guarantee to all the debt facilities of MIT ADT and created a fixed deposit of Rs. 5.0 crore as a corpus fund cum security deposit which can be utilised in case of any liquidity mismatch in MIT ADT during an academic year. The same remains a strong indicator of parent support to the university.

Good reputation of flagship institutes MITIOD and MANET –
During FY2018, the university derived over 50% of total revenues from its flagship institutes – MITIOD and MANET, which are well-recognised design and naval engineering institutes respectively in Maharashtra. These institutes enjoy strong reputation as reflected in healthy occupancy levels above 90% over the years for all the course offerings.

Non-affiliated and self-financed university status provides operational and financial flexibility –
Being a non-affiliated and self-financed university, MIT ADT can decide its own course structure, exam pattern and fees resulting in high operational and financial flexibility. Further, the university is also authorised to collect full fees even from the reserved category students and it does not need to rely on recovery of receivables from any government body. Thus, the associated liquidity risk remains minimal for the university.

Healthy financial risk profile characterised by robust capital structure and strong coverage indicators –
MIT ADT capital structure and coverage indicators remained robust as on March 31, 2018 due to absence of any external debt and adequate net worth position. Going forward, despite the envisaged debt funded capex plans of the university, the capital structure and coverage matrix are likely to remain comfortable with a projected gearing of 0.8x, TD/ OPBDITA of 1.1x and interest coverage of 9.5x in FY2019 supported by adequate accruals.

Credit weaknesses

Moderate scale of operations as new courses are yet to stabilise
MIT ADT, being separated from MAEER in FY2017, currently has moderate scale of operations. Further, the operations are yet to stabilise. The university started many new courses in the field of engineering, management, journalism, music etc.in AY 2017-18. The admissions in these courses have seen modest occupancy levels in the first year. Going forward, stabilisation of new courses along with maintaining occupancy levels in the flagship courses remains essential for the university.

Significant capex plans can constrain the free cash flows –
MIT ADT intends to incur significant capex of Rs. 62.0 crore in FY2019, Rs. 28.0 crore in FY2020 and Rs. 35.0 crore in FY2021 for infrastructure development. The capex for FY2019 will be funded through own equity of Rs. 32.0 crore and a debt of Rs. 30.0 crore. Although the university's internal accruals are likely to support the capex funding resulting in limited reliance on external borrowings, any increase in capex beyond the expected levels and its mode of funding can impact the capital structure as well as cash flow position of the university going forward.

Intense competition from other reputed public and private institutes in the country puts pressure on attracting and retaining talented students and faculty –
MIT ADT faces intense competition from other reputed public and private institutes in India and the same puts pressure on attracting and retaining talented students and faculty. Thus, the ability of the university to maintain healthy occupancy levels for all the course offerings would be the key rating sensitivity.

Regulatory risk associated with the higher education sector –
Though the university stature provides high financial as well as operational flexibility to MIT ADT, it continues to remain exposed to the inherent risk associated with highly regulated Indian education sector. Any adverse government regulation may impact the admission and fee structure.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Higher Education Sector

About the company:

MIT ADT, incorporated in June 2016, is established under the MIT Art, Design and Technology University Act, 2015 (Mah Act No. XXXIX of 2015). However, the campus was operational since 2004 and offered courses under MAEER. The MIT ADT University is Maharashtra's fifth private state university. It currently offers various courses in the fields of arts, design, engineering, journalism and music to around 4,000 students at its Rajbaug Campus, Loni Kalbhor, Pune, India. The university is self-financed university empowered to award the degrees under section 22 of the University Grants Commission Act 1956. MAEER is the sponsoring body of the university.

In FY2018, on a provisional basis, the university reported a net surplus of Rs. 13.3 crore on an operating income of Rs. 94.6 crore, as compared to a net surplus of Rs. 17.2 crore on an operating income of Rs. 55.8 crore in the previous year.

Key Financial Indicators – Consolidated (Audited)

	FY 2017	FY2018 Provisional
Operating Income (Rs. crore)	55.8	94.6
Surplus (Rs. crore)	17.2	13.3
OPBDIT/ OI (%)	32.9%	19.4%
RoCE (%)	200.0%	68.9%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	NA	NA
NWC/ OI (%)	-16%	-15%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	September 2018	FY2018	FY2017	FY2016
1	Fund Based – Term Loan	Long Term	30.0	30.0	[ICRA]A- (Stable)	-	-	-
2	Fund Based – Cash Credit	Long Term	14.9	-	[ICRA]A- (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
NA	Term Loan -I	26-03-2018	-	25-03-2025	30.0	[ICRA]A- (Stable)
NA	Cash Credit	-	-	-	14.9	[ICRA]A- (Stable)

Source: MIT ADT

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