

Nitte Education Trust

October 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Overdraft Facility	30.00	30.00	[ICRA]A+ (Stable); Reaffirmed
Short Term-Bank Guarantee	10.20	10.20	[ICRA]A1+; upgraded from [ICRA]A1
Short Term-Letter of Credit	10.00	10.00	[ICRA]A1+; upgraded from [ICRA]A1
Unallocated	26.80	26.80	[ICRA]A+(Stable) reaffirmed; [ICRA]A1+ upgraded from [ICRA]A1
Total	77.00	77.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 30.0-crore fund-based facilities and unallocated facility of the Rs. 26.80-crore of Nitte Education Trust (NET or the trust) at [ICRA]A+ (pronounced ICRA A plus)¹ and has upgraded the short-term rating assigned to the Rs. 20.20-crore non-fund-based bank facilities and unallocated facility of Rs. 26.80-crore of NET to [ICRA]A1+ (pronounced ICRA A one plus). The outlook on the long-term rating is Stable.

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Nitte Education Trust along with Nitte (deemed to be University), as they operate in the same line of business, have operational and financial linkages and share a common management.

The upgrade in short-term rating takes into consideration the healthy liquidity position supported by substantial free cash and cash equivalents, and unutilised working capital limits. The ratings continue to derive comfort from the strong financial risk profile of the trust characterised by steady revenue growth, healthy surpluses and strong debt coverage metrics. The ratings continue to derive comfort from NET's established track record of over three decades in the higher education sector, strong brand recognition with eminent and experienced governing council members. The ratings continue to take into account the healthy occupancy in its key institutes (K. S. Hegde Medical Academy, A. B. Shetty Memorial Institute of Dental Sciences, Nitte Mahalinga Adyanthaya Memorial Institute of Technology and Nitte Meenakshi Institution of Technology) ensuring stable revenue receipts and surpluses. The ratings also factor in the various accreditations, healthy student-faculty ratio and on-campus placements which help in retaining the existing students and attracting new students to an extent.

The ratings, however, continue to remain constrained by the vulnerability of NET's operations to regulatory risks arising from being governed by regulatory bodies such as the University Grants Commission (UGC), the Medical Council of India (MCI), the Dental Council of India (DCI), the All India Council for Technical Education (AICTE) etc. on various aspects of its operations including student intake, fee fixation, infrastructure requirements, as well as teaching and training quality of

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

the institutes. The ratings also take into account the stiff competition faced by its institutes from various Government and private colleges in attracting quality students and faculties. The ratings also consider the regular capital expenditure undertaken by the trust for upgrading the facilities and infrastructure in its existing colleges and its teaching hospital, and construction of buildings for new courses. Nonetheless, ICRA notes that NET's internal cash accruals would be able to support the expected scale of the capital expenditure and the dependence on additional debt funding would be limited.

Outlook: Stable

ICRA believes that NET will continue to benefit from its established presence in the higher education sector with healthy enrolments witnessed across key colleges under its umbrella. The financial profile of the trust is likely to remain stable given periodic fee revisions and increasing revenues from the teaching hospital. Driven by the high demand for these courses, the occupancy levels are expected to remain high, thereby providing revenue visibility for the trust over the near to medium term. The outlook may be revised to Positive, if there is a sustained growth in student additions aided by capacity additions, resulting in higher revenues and cash accruals from the current levels. Conversely, the outlook may be revised to 'Negative' if lower than expected net surplus results in significant deterioration in the capital structure and coverage indicators, or if any higher-than-anticipated debt funded capital expenditure weakens the financial profile of the trust.

Key rating drivers

Credit strengths

Established track record of three decades in the higher education sector: NET operates more than 30 institutes under its umbrella and offers diverse undergraduate and post-graduate courses in medicine, dental, nursing, physiotherapy, pharma, engineering and management, along with primary, secondary and pre-university education. The trust also operates a 1000-bed teaching hospital under the name 'K.S. Hegde Charitable Hospital' which provides holistic training opportunities to the students. The trust has an eminent governing council comprising members having vast experience in the higher education sector.

Strong brand recognition: The medical and dental colleges run by the trust are well recognised in Karnataka and enjoys a high demand among the medical and dental aspirants. This is demonstrated by the trust's ability to consistently attract meritorious students and maintain a high enrolment ratios at its medical and dental colleges.

Strong financial risk profile: The financial risk profile of the trust is marked by a strong capital structure of 0.04 times as on March 31, 2018 aided by minimal external borrowings and a healthy corpus fund. The debt coverage indicators were also strong with net cash accruals to total debt ratio of 449.0%, total debt to operating surplus ratio of 0.2 times and interest coverage ratio of 148.3 times as on March 31, 2018.

Healthy liquidity position: The liquidity profile of the trust remained healthy with unencumbered cash balances of Rs. 80.6 crore as on March 31, 2018. Moreover, the sanctioned overdraft limits have remained largely unutilised during the last 12 months. Given the strong cash flow generation from operations and healthy liquidity, the expected capital expenditure of Rs. 150.0 crore to be undertaken over next two to three years can be adequately funded through its internal accruals and existing cash balances.

Credit challenges

Dependence on a few institutes for major portion of revenues and surpluses: The trust derives a predominant share of its revenues from four key colleges, namely K. S. Hegde Medical Academy, A. B. Shetty Memorial Institute of Dental Sciences, NMAM Institute of Technology and Nitte Meenakshi Institute of Technology. However, going forward in order to diversify its revenues the management plans to start several other new courses over the near to medium term.

Exposed to strict regulations –The trust’s operations continue to remain vulnerable to strict regulations framed by various regulatory bodies such as the University Grants Commission (UGC), the Medical Council of India (MCI), the Dental Council of India (DCI), the Indian Nursing Council (INC), the Pharmacy Council of India (PCI), the All India Council for Technical Education (AICTE), the Council of Architecture (COA), Department of Pre-university Courses, universities and state governments etc., restricting the flexibility and autonomy with respect to fees and student intake, among others. Any non-compliance or violations of these regulations may lead to cancellation of affiliation and may put restriction on new admissions impacting its revenues and cash flows.

Stiff competition –The trust faces stiff competition from various Government and private institutes offering similar courses in attracting students and faculties. However, this risk is partly mitigated by the brand position enjoyed by NET in Karnataka.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of Nitte Education Trust along with Nitte (deemed to be University), as they operate in the same line of business, have operational and financial linkages and share a common management.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Higher Education Sector](#)

About the trust:

Nitte Education Trust, located in Mangalore (Karnataka), was established in 1985 as a private trust and operates more than 30 institutes under its umbrella, spreading across three campuses at Nitte, Mangalore and Bangalore. The trust offers undergraduate and post-graduate courses in medicine, engineering, nursing, physiotherapy and management along with primary, secondary and pre-university education. The trust also operates a 1000-bed teaching hospital under the name ‘K. S. Hegde Charitable Hospital’ which provides all levels of holistic health care including major super-specialty services and provides excellent training opportunities to the students. Nitte (deemed to be University), established under Nitte Education Trust, was established in 1999 and the Government of India had conferred the status of deemed-to-be University in June 2008. Nitte University has been accredited 'A' grade by the National Assessment and Accreditation Council (NAAC).

On a standalone basis, NET reported a surplus income of Rs. 58.7 crore on revenue receipts of Rs. 201.1 crore in FY2018, as compared to a surplus income of Rs. 53.7 crore on revenue receipts of Rs. 185.9 crore in the previous year.

On a consolidated basis, the Group reported a surplus income of Rs. 92.3 crore on revenue receipts of Rs. 434.8 crore in FY2018, as compared to a surplus income of Rs. 88.4 crore on revenue receipts of Rs. 404.5 crore in the previous year.

Key financial indicators*

	FY 2017 (Audited)	FY 2018 (Audited)
Revenue Receipts (Rs. crore)	404.5	434.8
Surplus Income (Rs. crore)	88.4	92.3
Operating Surplus/Revenue Receipts (%)	26.2%	25.0%
RoCE (%)	15.6%	14.4%
Total Debt/ Corpus Fund (times)	0.0	0.0
Total Debt/ Operating Surplus (times)	0.3	0.2
Interest coverage (times)	119.4	148.3

Source: ICRA Research *Consolidated

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 as on March 2018 (Rs Crore)	Date & Rating in FY2019 Oct 2018	Date & Rating in FY2018 Apr 2017	Date & Rating in FY2017	Date & Rating in FY2016
1 Overdraft	Long term	30.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2 Bank Guarantee	Short term	10.20	-	[ICRA]A1+	[ICRA]A1	-	-
3 Letter of Credit	Short term	10.00	-	[ICRA]A1+	[ICRA]A1	-	-
4 Unallocated	Long term/ Short term	26.80	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	-	-

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	Overdraft	-	-	-	30.00	[ICRA]A+ (Stable)
NA	Bank Guarantee	-	-	-	10.20	[ICRA]A1+
NA	Letter of Credit	-	-	-	10.00	[ICRA]A1+
NA	Unallocated				26.80	[ICRA]A+ (Stable)/ [ICRA]A1+

Source: Nitte Education Trust

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