

November 13, 2020

MIT World Peace University: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	35.00	[ICRA]A-(Stable); Assigned
Total	35.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating takes into consideration the parent support enjoyed by MIT World Peace University (MIT WPU) as part of the MIT Group, wherein Maharashtra Academy of Engineering & Educational Research (MAEER; rated [ICRA]A+/Negative) acts as a sponsoring body. The rating also factors in the brand reputation and the resultant healthy occupancy in the flagship institutes of MIT WPU i.e. Faculty of Engineering, Faculty of Management UG and Faculty of Management PG, which generate about 83.7% of the university's revenue. Further being a non-affiliated and self-financed university, MIT WPU enjoys operational and financial flexibility to decide the syllabi as well as the fee structures. 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 WPU's healthy financial risk profile, characterised by robust capital structure, with TD/TNW of 1.6 times and healthy liquidity, supported by liquid investment of Rs 70.7 crore in bank fixed deposits as on March 31, 2020.

The rating, however, remains constrained by the moderate scale of operations. Majority of courses to the university are transferred from MAEER, which has an established track record of more than a decade in providing education in Pune. The rating also factors in the concentration risk, given the Trust's dependence on the engineering courses, which generate about 42.7% of the courses fee, and the management courses (UG and PG), which account for about 41.0% of the total course fee of the university. However, ICRA notes the established reputation of the engineering college; it is one of the first private engineering college in Maharashtra, set up in 1983 in Pune. The rating also factors in the continuous investment required to upgrade infrastructure facilities to remain competitive, leading to sizeable recurring capital expenditure (capex). 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, the ability of the university to attract high quality students, given the intense competition from other reputed public and private institutes in the country, while maintaining the quality of its teaching staff, will remain essential.

The Stable outlook reflects ICRA's expectation that MIT WPU will maintain a steady operational as well as financial risk profile, while gradually reducing its concentration on limited courses.

Key rating drivers and their description

Credit strengths

Strong parentage of MAEER– The sponsoring body, MAEER, is a well-known education trust with an established presence since 1983 and has over 75 institutions providing education in diverse fields. The brand strength of MAEER extends benefits to MIT WPU university as well. Further, the current debt as recorded in the books of MIT WPU is being sanctioned to MAEER and is serviced by the university. MAEER has also 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 WPU during an academic year. The same remains a strong indicator of parent support to the university.

Non-affiliated and self-financed university status provides operational and financial flexibility – Being a non-affiliated and self-financed university, MIT WPU can decide its own course structure, examination pattern and fee structure, resulting in high operational and financial flexibility. Further, the university is authorised to collect full fees from its 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– MIT WPU’s capital structure and coverage indicators remained robust as on March 31, 2020 with TOL/TNW (adjusted for cash and liquid investment) of 1.8 time and TD/OPBITDA of 1.6x. The university undertook a term loan (Rs. 52.1 crore outstanding on March 31, 2020) to fund the capex for upgrading the infrastructure of its campus and plans to incur further debt-funded capex over the medium term. However, the capital structure and coverage matrix are likely to remain comfortable, supported by steady internal accruals

Credit challenges

Dependence on three institutes for bulk of revenue and profits – MIT WPU has 17 institutes under its affiliation, but it derives about 83.7% of its total fee receipt in FY2020 from its top three institutes, viz. Faculty of Engineering, Faculty of Management (UG) and Faculty of Management (PG). These courses were transferred from MAEER during its inception in FY2018 and have established track records of more than a decade under MAEER. Though the revenue share from other institutes remain minimal at present, the institute is incurring capex to build new infrastructure for other courses such as Design, which will help to increase enrolments in other courses, consequently increasing their revenue share over the medium term.

Significant capex plans will constrain the free cash flows – MIT WPU intends to incur significant estimated capex of Rs. 44 crore in FY2021 and Rs. 52 crore in FY2022 for infrastructure development. The capex will be funded partly by debt and the rest through internal accruals. Although the university’s internal accruals are likely to support the capex funding, any increase in capex beyond the expected levels and its mode of funding can impact the capital structure as well as the cash flow position of the university.

Intense competition from other reputed public and private institutes – MIT WPU faces intense competition from other reputed public and private institutes of Pune & Mumbai and that puts pressure on attracting and retaining talented students and faculty. Thus, the ability of the university to maintain healthy enrolment levels in all its course offerings will be a key rating sensitivity.

Liquidity position: Adequate

MIT WPU’s liquidity is **adequate**, with expected fund flow from operations of nearly Rs. 35-40 crore, a capex commitment of about Rs.44 crore in FY2021 (partly funded by debt). MIT WPU’s debt repayments, at Rs. 11.1 crore in FY2021, also remain modest. The university’s liquidity is also supported by unencumbered fixed deposits of Rs 70.7 crore and cash and bank balance of Rs 9.3 crore as on March 31,2020. ICRA notes that the university has significant current liability as on March 31,2020 for foreign study tours to be conducted, which will moderate the liquidity position as and when it materialises. Amidst the pandemic, the university has increased the total number of instalments for fee collection to provide relief to students. The fees will be collected in three instalments from existing students (instead of two) and in five instalments for the new admissions. Out of five instalments, the last two instalments will be collected in FY2022.

Overall, ICRA expects MIT WPU to meet its near-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive triggers – ICRA could upgrade MIT WPU’s rating if it demonstrates an improvement in its business risk profile supported by significant growth in its scale of operations and accruals, while maintaining robust capitalisation and coverage indicators.

Negative triggers – Negative pressure on MIT WPU’s rating could arise if there is significant decline in new admissions in its flagship institutes or if due to increase in debt-funded capex, the TD /OPBITDA exceed 2.25 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry - Apparels
Parent/Group Support	Maharashtra Academy of Engineering and Educational Research (sponsoring body). The rating is based on implicit support from the Group as reflected by its infrastructure support
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity

About the company

MIT WPU, incorporated in May 2017, is established under the Dr. Vishwanath Karad MIT World Peace University Act, 2016 (Mah. Act No. XXXV of 2017) in Kothrud, Pune. However, the campus was operational since 1983 and offered courses under MAEER. It currently offers various courses across the engineering, management, design, law, journalism etc. to around 14,300 students at its Kothrud campus, Pune. The university is self-financed and empowered to award degrees under section 22 of the University Grants Commission Act, 1956. MAEER is the sponsoring body of the university.

In FY2020, as per audited financial, the university reported a net surplus of Rs. 24.5 crore on operating income of Rs. 274.6 crore over a net surplus of Rs. 19.8 crore on an operating income of Rs. 197.4 crore in the previous year.

Key financial indicators

	FY2019(Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	197.4	274.6
PAT (Rs. crore)	19.8	24.5
OPBDIT/OI (%)	14.4%	12.6%
PAT/OI (%)	10.0%	8.9%
Total Outside Liabilities/Tangible Net Worth (times)	6.4	3.7
Total Debt/OPBDIT (times)	1.9	1.6
Interest Coverage (times)	8.8	7.9

*Source: Company Data; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					November 13, 2020			
1	Term loans*	Long Term	35.0	0.0	[ICRA]A- (Stable)	-	-	-

Amount in Rs. crore * Proposed

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan				35.0	[ICRA]A-/Stable

Source: MIT World Peace University

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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