Maharashtra Academy of Engineering & Educational Research

February 14, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund-based TL	**152.00**	**245.0**	[ICRA]A+(Negative); reaffirmed and outlook revised from Stable
Long Term - Fund-based CC	114.48	72.50	[ICRA]A+(Negative); reaffirmed and outlook revised from Stable
Total	**266.48**	**317.50**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the rating, ICRA has taken the consolidated financials of Maharashtra Academy of Engineering & Educational Research (MAEER) trust and the four universities - MIT World Peace University (MIT-WPU), MIT Art Design and Technology University (MIT ADT), Awantika University and MIT University, Shillong. MAEER acts as a sponsoring body to these universities and there are strong management, operational and financial linkages between these entities (together referred to as the MAEER Group).

The rating reaffirmation continues to derive comfort from the Group's strong reputation in the Indian education sector with track record of over 30 years. It offers diversified courses (like Engineering, Management, Pharmacy and Medical) and has teaching institutes (like design institute, film institute etc). It also offers non-conventional courses, like Telecom Management, Naval Engineering, Railway Engineering etc. The rating also factors in the healthy occupancy in the Group's flagship engineering and design institutes i.e. Maharashtra Institute of Technology (MIT, Pune), MIT College of Engineering, Pune and MIT Institute of Design (MITIOD), which generate over 50% of the Group's revenues. The rating also derives comfort from the strong operational and financial flexibility enjoyed by the new universities in terms of increasing intake capacity, adding courses and deciding syllabi as well as fee structures due to their non-affiliated and self-financed university stature. This can be witnessed from the healthy revenue growth of ~26% YoY in FY2018. ICRA expects the Group to maintain the healthy revenue growth going forward, driven by fee hikes for the flagship courses, addition of batches in the private universities and introduction of new courses. The reduced dependence on Government grants is likely to improve its liquidity profile. The trust has unencumbered cash/bank balance to the tune of Rs. 55.0 crore, which supports its liquidity profile.

The rating, however, remains constrained by the moderate scale of operations at present as well as the limited track record of these universities. Though the flagship institutes have an established track record of more than a decade under MAEER, majority of the new courses added in FY2018 are yet to stabilise, as witnessed in their moderate occupancy levels in Academic Year (AY) 2017-2018. The rating also factors in the continuous investments required in setting up infrastructure facilities in these universities in order to remain competitive, which led to sizeable debt-funded capital expenditure in the last three fiscals. This, coupled with low profitability for the new universities (which are in scale up mode), adversely impacted the capital structure and the coverage indicators in FY2018. However, ICRA notes that as the operations of these universities stabilise, the Group is likely to generate healthy surplus, going forward. This, coupled with the management's intentions to slow down capex plans in the near to medium term, is likely to improve the Group's credit metrics, going forward and will remain a key monitorable. Further, improving the Group's liquidity profile through prudent working capital management will be essential from the credit perspective. The rating continues to factor in the inherent risk associated with the highly regulated education sector. Any adverse Government regulation may impact the Group's revenue growth and surplus.

Outlook: Negative

The Negative outlook reflects the Group's weaker-than-expected financial profile in the last two fiscals. Significant debt-funded capex to set up infrastructure in the new universities impacted the capital structure and the coverage indicators in the past. Additionally, under-absorption of the fixed costs pertaining to these universities (owing to their first or second year of operations) impacted the profitability. The outlook may be revised to Stable if the financial risk profile improves in the near term, which remains contingent upon healthy surplus creation through the past investments and stabilisation of operations of the new universities. Absence of incremental debt-funded capex plans in the near term will also remain important for visible improvement in the Group's credit metrics.

Key rating drivers

Credit strengths

Reputed player in Indian education sector with track record of over 30 years - MAEER, a well-known education trust with an established presence since 1983, has over 65 institutions across diverse fields. All the major institutes of the trust have consistently recorded adequate occupancy levels, indicating a fair degree of revenue visibility for the Group. MAEER's brand strength extends benefits to the newly formed universities as well.

Non-affiliated, self-financed university status provides operational and financial flexibility - Having non-affiliated, self-financed universities, the Group decides its course structure, exam pattern and fees, resulting in high operational and financial flexibility. Substantial increase in fees for the flagship courses led to a healthy revenue growth of ~26% YoY in FY2018. The Group is likely to maintain the healthy revenue growth going forward as well, driven by an increase in student intake with a healthy fee structure. Further, the universities are authorised to collect full fees from the reserved category students and it does not rely on the recovery of receivables from any Government body. Thus, the associated liquidity risk is likely to remain minimal for the universities, going forward.

Expected healthy surplus as operations of new universities stabilise - The Group started many new courses in engineering, management, journalism, music etc in AY2017-2018. However, these universities, being separated from the MAEER trust in FY2018, currently have moderate scale of operations. Unlike the flagship courses, the new courses witnessed modest occupancy levels in the first year. Further, the operations of these universities are yet to stabilise as the low student base led to under-absorption of fixed costs, as reflected in the net losses in MIT WPU, MIT University, Shillong and Awantika University in FY2018. However, as the operations of these universities stabilise leading to healthy revenue growth and fixed-cost absorption, the Group is expected to create healthy surplus going forward. As on December 31, 2019, the Group reported a consolidated revenue of Rs. 512.3 crore with a net surplus of Rs. 35.8 crore. The management expects the net surplus in FY2019 to remain over Rs. 50.0 crore.

Credit weaknesses

Weak capital structure and coverage indicators due to substantial debt-funded capex; however, improvement expected - In order to diversify geographically, the Group has been focusing on adding institutes and infrastructure within and outside Maharashtra since the last three fiscals. The Group incurred substantial debt-funded capex of over Rs. 450.0 crore in the last three fiscals till 9M FY2019. This, coupled with low surplus creation, impacted the Group's capital structure and coverage indicators. As on March 31, 2018, the gearing moderated to 0.8x from 0.6x in FY2017. The TD/OPBDIT also deteriorated to 3.7x in FY2018 from 2.6x in FY2017. However, the credit metrics is expected to improve going forward, primarily due to the estimated healthy surplus creation through the past investments as well as the management's intention to slow down capex plans. As on December 31, 2018, the gearing remained at 0.8x, TD/OPBDIT at 2.5x and interest coverage at 3.8x.

Intense competition puts pressure on attracting and retaining talented students and faculty - The MAEER Group faces intense competition from reputed public institutes (like College of Engineering Pune, VJTI Mumbai etc) and private institutes (like Sinhagad Group of Institutes, Symbiosis Group of institutes, VIT Pune etc) in Maharashtra. This puts pressure on attracting and retaining talented students and faculty. With the intake capacity expected to increase, along with addition of courses, the Group's ability to maintain student quality will remain important, going forward.

Highly regulated sector; any adverse Government regulation may impact revenue growth and accruals - Though the Group's independent universities enjoy greater financial as well as operational flexibility, the other institutes under the MAEER trust remain exposed to high regulatory institutes, being governed by public universities. Any adverse Government regulation may impact the Group's revenues as well as operational growth.

Liquidity position

Educational institutes are typically exposed to a certain degree of liquidity mismatch given that the bulk of cash inflows (academic fees) are received just prior to the commencement of an AY, whereas the expenses are incurred on a monthly basis. However, the MAEER Group's cash inflows are well-distributed across the year due to spread-out fees collection periods for different courses. Further, the Group has adequate sanctioned overdraft facilities in case of any liquidity mismatch in certain months of the year. The Group's liquidity position also remains supported by the unencumbered cash and fixed deposits, which remained to the tune of Rs. 54.0 crore as on December 31, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Higher Education Sector
Parent/Group Support	Not applicable.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of MAEER trust and the four universities - MIT WPU, MIT ADT, Awantika University and MIT University, Shillong. MAEER acts as a sponsoring body to all these universities. The details given in Annexure-2.

About the company

Maharashtra Academy of Engineering & Educational Research, established in 1983, is a well-known educational trust with over 10 campuses in Maharashtra covering almost 1,200 acres. Till FY2017, the trust provided education in the fields of Engineering, Medicine, Pharmacy, Marine Engineering, Insurance, Telecom Management, Lighting, Design, Food and Technology, Retail Management, Business Administration, and Political Leadership and Governance, along with distance and school education. More than 51,000 students pursued various courses in over 65+ institutes of the Group. In FY2017, the trust submitted a proposal to establish three self-financed State Universities before the Government of Maharashtra as a sponsoring body. Accordingly, MIT ADT, MIT WPU and Awantika University were established under the State Self-Financed Universities Act. MIT-ADT became functional in FY2017 whereas MIT WPU and Awantika University became functional in FY2018. The trust also acquired MIT University, Shillong (earlier UTM Shillong) in FY2017.

In FY2018, on a consolidated basis, the Group reported a net surplus of Rs. 9.5 crore on an operating income (OI) of Rs. 589.0 crore compared to a net profit of Rs. 19.2 crore on an OI of Rs. 468.8 crore in the previous year.

Key financial indicators (audited)

	FY2017 (Consolidated)	FY2018 (Consolidated)
Operating Income (Rs. crore)	468.8	589.0
Surplus (Rs. crore)	19.2	9.5
Operating Surplus/OI (%)	15.6%	12.8%
RoCE (%)	6.8%	5.6%
Total Debt/TNW (times)	0.6	0.8
Total Debt/OPBDIT (times)	2.6	3.7
Interest Coverage (times)	5.8	3.3

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)	Date & Rating February 2019	August 2017	May 2016	August 2015
1	Term Loans	Long Term	245.0	245.0	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Cash Credit/ Overdraft Facilities	Long Term	72.5	-	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
	Total		**317.5**	**245.0**				

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 -1	Feb-2017	10.45%	Aug-2024	27.0	[ICRA]A+(Negative)
NA	Term Loan -2	Nov-2014	9.45%	Nov-2021	7.7	
NA	Term Loan -3	Mar-2017	9.45%	Mar-2022	4.9	
NA	Term Loan -4	May-2017	9.45%	May-2022	6.1	
NA	Term Loan -5	May-2017	9.45%	May-2026	14.9	
NA	Term Loan -6	Feb-2018	9.45%	Feb-2023	5.0	
NA	Term Loan -8	May-2016	9.35%	Feb-2020	2.4	
NA	Term Loan -9	May-2016	9.35%	Feb-2021	7.0	
NA	Term Loan -10	May-2016	9.35%	Feb-2020	2.4	
NA	Term Loan -11	May-2016	9.35%	Feb-2023	6.8	
NA	Term Loan -12	May-2017	8.50%	May-2025	27.9	
NA	Term Loan -13	May-2017	8.25%	May-2025	15.0	
NA	Term Loan -14	Sep-2017	8.25%	Jan-2022	2.2	
NA	Term Loan -15	Aug-2018	9.00%	Feb-2025	19.3	
NA	Term Loan -16	Nov-2017	9.40%	Nov-2031	23.6	
NA	Term Loan -17	May-2018	9.50%	Nov-2023	15.0	
NA	Term Loan -18	May-2018	8.30%	Feb-2014	25.0	
NA	Term Loan -19	Mar-2018	8.60%	Mar-2026	32.8	
NA	Cash Credit		-	-	72.5	[ICRA]A+(Negative)

Source: MAEER

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
MIT WPU	100%	Full Consolidation
MIT ADT	100%	Full Consolidation
Awantika University	100%	Full Consolidation
MIT University, Shillong	100%	Full Consolidation

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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