NIIT Institute of Information Technology

November 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based bank facilities: Term Loans	180.00	174.15	[ICRA]BBB-(Negative); Rating reaffirmed, outlook revised from Stable
Unallocated long-term facilities	--	5.85	[ICRA]BBB-(Negative); Rating reaffirmed, outlook revised from Stable
Total	**180.00**	**180.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating for the Rs. 180-crore[1] bank facilities of NIIT Institute of Information Technology (TNI) at [ICRA]BBB- (pronounced ICRA triple B minus)[2]. The outlook on the long-term rating has been revised from Stable to Negative.

Rationale

The rating continues to derive comfort from the consistent and timely funding support to TNI by its founders, as well as entities belonging to the founder group, to meet its cash shortfalls as well as debt servicing obligations. Nevertheless, slower-than-expected ramp up in the admissions and revenue receipts of TNI's University (despite an improvement in operating performance in FY2018) together with scheduled commencement of ballooning debt repayments from FY2020 onwards is expected to increase the society's dependence on external funding support in the near to medium term. Accordingly, outlook on the rating has been revised to negative.

Besides financial support from the founders, the society also benefits from association with the Group's renowned brand name as well as close involvement of founders and a professionally-managed governing body in the University's operations, given their extensive experience in the domestic education sector. While reaffirming the rating, ICRA has noted the ramp-up in student intake in the University's Industry Linked Programmes (ILPs) as well as steps being taken by the University to diversify its course portfolio to meet the evolving needs of the industry. This becomes particularly crucial, considering the intense competitive pressures and continued subdued enrolments in flagship engineering courses amid an unfavourable demand-supply scenario. Although the ramp up in ILP courses helped the University report a growth in revenue receipts while reducing operating deficits during FY2018, continued sub-optimal enrolment levels together with short-duration and volatile batch sizes of these courses provide limited revenue visibility. The concerns are heightened, given the high operating leverage inherent in the operations of an educational Institution as well as TNI's high interest costs and scheduled commencement of repayment obligations from FY2020 onwards. In this context, the presence of a debt-service reserve account (DSRA) mechanism involving setting aside of amount equivalent to one quarter's interest and one ensuing principal instalment used to provide additional comfort on timeliness of funding support. Although the stipulated covenant pertaining to DSRA stands waived, the rating continues to factor in

[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 presence of an escrow account mechanism for fee receipts and adequate cash balances being maintained by the University to meet its debt obligations in a timely manner.

Considering the large bank borrowings and limited scale of operations at present, the University's ability to improve its enrolment levels and revenue receipts materially and on a sustainable basis remains critical. Especially, given the high operating leverage and scheduled commencement of its debt repayments from August 2019 onwards. The improvement in operational cash flows will determine the extent of dependence on funding support from founders and will be a key determinant of TNI's credit profile, going forward.

Outlook: Negative

In ICRA's view, the enrolment levels in the University are likely to remain sub-optimal in the near term, despite the expected increase in admissions in the industry-linked programmes based on the Memorandums of Understanding (MoUs) executed. This together with scheduled commencement of debt repayments from FY2020 onwards is expected to increase the extent of dependence on founder support from the levels witnessed over the past few years. Accordingly, the outlook on the rating is Negative. The outlook may be revised to Stable, if a significant improvement in net revenue receipts supported by a healthy growth in student admissions results in operating surplus, thereby reducing dependence on funding support from the founders.

Key rating drivers

Credit strengths

Demonstrated track record of operational and financial support from founders – With an established track record of more than three decades in providing IT training and education through NIIT Limited and having been engaged with various education-related forums and initiatives over the years, TNI's founders, Mr. Rajendra S. Pawar and Mr. Vijay K. Thadani, hold extensive experience in the domestic education sector. The founders, along with a professionally-managed governing body, are closely involved in strategy-making as well as the daily operations of the University. The founders' commitment towards the University is also evident from their contribution of more than Rs. 200 crore in the entity, in the form of long-term interest-free unsecured loans, corpus funds, Corporate Social Responsibility (CSR) grants and donations till March 31, 2018.

Association with a renowned brand name – Although the University has a track record of less than a decade and operates in an intensely competitive higher education sector, it benefits from being associated with a renowned brand, NIIT. The University shares its name with NIIT Limited and NIIT Technologies Limited, which are listed entities with a track record of more than three decades in providing learning/ knowledge and IT solutions.

Diversified and evolving course offerings – The University offers a diversified set of courses at graduate level (B.Tech and newly launched 4-year integrated Masters programme (Integrated MBA) that combines two programmes – BBA and MBA), post-graduate (M.Tech[3], MBA[4] and M.Sc.[5]) as well as doctorate (PhD[6]) levels. In addition, the University has increased its focus on offering ILPs across diverse fields over the past few years, which service the specific academic

[3] *Master of Technology*
[4] *Master of Business Administration*
[5] *Master of Science*
[6] *Doctor of Philosophy*

requirements of the industry. Leveraging its association with NIIT Group companies, the University has recently introduced new degree courses, viz., Masters in Business Administration (MBA) in Intelligent Data Sciences, Masters in Learning Design, and MBA in Business Analytics with a longer duration of two to three years in comparison to one year Diploma programmes with PSU Banks. Having a diversified and continually evolving course portfolio has helped the University partially overcome the pressure on enrolments witnessed in some of its traditional courses such as B.Tech. For instance, the University reported a ~24% increase in student intake in ILPs during the Academic Year (AY) 2018, which more than offset the decline in admissions in B.Tech, leading to an increase in student strength from 1,141 at the end of AY2017 to 1,273 at the end of AY2018. Nevertheless, the University's ability to attract healthy enrolments in these courses and strengthen its student base on a sustainable basis, remains to be seen.

Adequacy of infrastructure for future growth, which would keep capital investment requirements low - The University has the capacity to accommodate ~2,400 students in its academic block and ~1,900 students in its hostel block, as compared to its existing student strength of ~1,273. Further, the hostel capacity can be leveraged to attain higher levels of occupancy to match academic capacity. As there is a surplus capacity available, capital expenditure requirements are expected to remain low for supporting growth in the near to medium term.

Credit challenges

Sub-optimal enrolment levels, resulting in continued cash deficits and dependence on external funding support – Despite a ~12% increase in student strength in AY2018, supported by ILPs, after a modest ~2-3% increase over the previous three years (AY2015-17), the University continues to operate at sub-optimal enrolment levels of ~53% vis-à-vis available capacity. Although the increase in student strength and average net revenue per student[7] helped the University report some improvement in revenue receipts and a reduction in operating deficits, high operating leverage inherent in its operations together with sizeable interest costs and continued scholarships being offered with the objective of maintaining student quality, resulted in continued cash deficits for the society. As a result, the society remained dependent on external funding support for meeting its funding shortfalls. In this context, the presence of a debt-service reserve account (DSRA) mechanism involving setting aside amount equivalent to one quarter's interest and one ensuing principal instalment used to provide additional comfort on timeliness of funding support. Although the stipulated covenant pertaining to DSRA stands waived, the rating continues to factor in the presence of an escrow account mechanism for fee receipts and adequate cash balances being maintained by the University to meet its debt obligations in a timely manner.

Scheduled increase in debt repayment obligations - As per the terms of sanction, the moratorium period available on the society's term debt is scheduled to end in August 2019. Although the repayment obligations in FY2020 would be relatively lower at Rs. 5 crore, these would start stepping up from FY2021 onwards. Given this and a backdrop of continued cash deficits, the society's funding requirement is likely to increase going forward. In this context, its ability to achieve a significant ramp up in operations in the near term or mobilise adequate long-term funding in a timely manner remains crucial for its debt-servicing ability.

Limited revenue visibility, with increasing contribution of shorter-duration courses - Pass-out of larger B.Tech student batches, subdued admissions in B.Tech courses in recent years, together with a positive traction in ILP courses in AY2017 and AY2018, have all resulted in a decline in the share of longer-duration B.Tech courses. There has also been a corresponding increase in the share of other short-duration courses in the University's student strength as well as

[7] *Even though gross fee in B.Tech courses is higher vis-a-vis ILP courses, net fee adjusted for scholarships is higher in ILPs*

revenue receipts in recent years. Further, the pace of admissions in ILP courses has remained slower than expected as these were largely focusing towards the banking sector, where the execution of MoUs in the pipeline was delayed owing to the challenging operating environment in the industry. Even though the society has started targeting other sectors for its ILPs, revenue visibility on the same remains limited, given the smaller duration and volatile batch sizes of these programmes vis-à-vis traditional B.Tech programmes.

Intense competitive pressures, particularly in the University's flagship B.Tech course – University faces intense competitive pressures from other engineering and management colleges from Delhi, Haryana and Rajasthan. Further, in line with the general industry trend, resulting from the unfavourable demand-supply scenario in engineering courses across the country, the student admissions in the University's flagship B.Tech programme declined by ~19% each during AY2017 and AY2018, before reporting a modest ~8% recovery in AY2019. Notwithstanding the decline in admissions over the years, the B.Tech programme accounted for ~70% of tuition fee receipts and ~64% of student strength during AY2018. Though the University has taken steps to expand its course offerings across streams both in regular and ILP segments, the significant shift in revenue mix is yet to be seen.

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 Higher Education Sector

About the Entity:

Formed by the promoters of the NIIT Group (which comprises NIIT Limited and NIIT Technologies Limited), NIIT Institute of Information Technology is a not-for-profit society, which was registered under the Society Registration Act of 1860 in June 2005. TNI has set up a State Private University, named NIIT University (NU) in Neemrana (Rajasthan). It was awarded recognition by an ordinance issued by the Government of Rajasthan in October 2009, and later by the promulgation of an act of the Rajasthan Legislative Assembly (NIIT University Act) in April 2010. The University offers graduate (B.Tech and newly launched 4-year integrated Master Programme (BBA – MBA)), post-graduate programmes (M.Tech, MBA and M.Sc.), doctorate (PhD), and industry linked programmes. The University commenced operations from AY2010 with 30 students. At present, it has a total strength of 1,273 students (in AY2018), with 75 faculty members (including visiting faculty) across various programmes.

The University campus is spread across 75 acres and comprises two academic blocks and four hostel blocks, with lecture halls, laboratories, computer centre, library and sports facilities. The existing academic infrastructure can accommodate ~2,400 students, while the hostel infrastructure can accommodate ~1,900 students, which can be leveraged further to attain higher levels of occupancy to match academic capacity.

Key financial indicators (Audited)

Particulars	FY2017	FY2018
Gross Revenue Receipts or GRR (Rs. crore)	37.0	42.2
Operating Surplus/(Deficit) (Rs. crore)	(1.2)	2.3
Net Surplus/(Deficit) (Rs. crore)	(33.0)	(26.4)
Operating Surplus/GRR	-3.11%	5.53%
RoCE (%)	NR	NR
Total Debt/TNW (times)	NR	NR
Total Debt/OPBDIT (times)	NR	134.65
Interest Coverage (times)	NR	0.11

Source: TNI's financial statements, ICRA research

Note: GRR: Gross revenue receipts, including scholarships extended to students (scholarships of ~Rs 12.6 crore and ~Rs 12.2 crore in FY2017 and FY2018 respectively; ROCE: Surplus before Interest and Tax/Average (Total Debt + Corpus Funds+ Deferred Tax Liability - Capital Work-in-Progress); NWC: Net Working Capital; NR: Not Relevant

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Chronology of Rating History for the past 3 years: Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016
					Nov 2018	Sept 2017	Sept 2016	Jun 2016	May 2015
1	Fund-based bank facilities: Term Loan	LT	174.15	174.15	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]A (Stable) withdrawn	[ICRA]A (Stable)
2	Fund-based bank facilities: Unallocated	LT	5.85	--	[ICRA]BBB- (Negative)	-	-	-	-

Note: LT: Long Term
^Outstanding as on March 31, 2018
**[ICRA]A(Stable) rating withdrawn, as the society had fully prepaid the rated bank facilities*

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	Long-term fund- based bank facilities: Term Loans	14-Mar-18	MCLR + 0.95%*	FY2026	174.15	[ICRA]BBB- (Negative)
NA	Long-term unallocated bank facilities	--	--	--	5.85	[ICRA]BBB- (Negative)

** Linked to Yes Bank's MCLR; scheduled to increase to MCLR + 4% p.a. from FY2020 onwards*

Source: NIIT Institute of Information Technology

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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