October 09, 2019

The ICFAI University Nagaland: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based	1.10	3.00	[ICRA]A+(Stable); re-affirmed / assigned
Short-term fund-based	10.00	12.00	[ICRA]A1+; re-affirmed / assigned
Total limits	**11.10**	**15.00***	

*Instrument details are provided in Annexure-1

Note: *The [ICRA]A+(Stable)/[ICRA]A1+ ratings were earlier denoted as [ICRA]A+(SO) (Stable)/[ICRA]A1+(SO).* The ratings were earlier based on the corporate guarantee extended by The ICFAI Society. There has been a change in the analytical approach, with the ratings now being based on a consolidated view of all the entities operating in the ICFAI Group

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of The ICFAI Society, ICFAI Foundation for Higher Education (IFHE), The ICFAI University Nagaland and other entities operating in the Group (hereafter collectively referred to as the ICFAI Group), given the strong operational and financial linkages among the entities. The ICFAI Society acts as the sponsor for the other entities in the Group and owns most of the assets including the campuses utilised by these entities. Details of various entities operating in the ICFAI Group, which have been consolidated, are given in Annexure 2.

The re-affirmation of ratings factors in the expected steady operational and financial performance of the ICFAI Group over the medium term, driven by the continued stable growth in enrolments across the institutes and heathy earnings witnessed at the Group level. The Group's performance remained strong in FY2019, characterised by a revenue growth of more than 15%. Besides, operating margins and return on capital employed (ROCE) stood at around 42% and 17% respectively in FY2019. While revenues are expected to grow by 8-10% in FY2020 and FY2021 on the back of improving enrolments and proposed expansion of infrastructure and student intake capacities in key institutes, the proposed establishment of new state universities across various locations are likely to drive revenues over the medium to long term. Growth in enrolments and earnings witnessed in the business schools have remained robust on the back of the ICFAI Group's established presence in the higher education sector, with its flagship IBSH (ICFAI Business School, Hyderabad) institute positioned among the reputed business schools in the country. Earnings from operations of the ICFAI Group has remained healthy over the years, driven by the strong accruals generated by its seven business schools, which contribute around 75% to the consolidated operating surplus. While there could be some moderation in the return indicators over the medium term with the expected increase in operating costs and likely under-absorption of the same during the initial years of operations of the proposed new institutes, the operating margins and ROCE are still expected to remain at healthy levels.

The ratings also take comfort from the Group's robust financial profile, characterised by a conservative capital structure and strong liquidity position on the back of healthy earnings generated over the years. Further, the Group enjoys financial flexibility on the back of its sizeable unencumbered cash balances and liquid investments of Rs. 947 crore as on March 31, 2019 against a consolidated debt of Rs. 144 crore. The Group is in the process of expanding its infrastructure in key locations like Hyderabad and Bangalore, apart from establishing campuses in new locations including Mumbai and Gurgaon over the coming fiscals. A cumulative capital expenditure of around Rs. 855 crore has been planned for FY2020 and FY2021. Despite the large expenditure envisaged, the Group is expected to maintain a conservative capital structure as a major portion of the proposed expenditure is expected to be funded through internal accruals and available cash balances.

However, the ratings also continue to factor in the weaker-than-expected performance of the state private universities under the ICFAI Group. Most of the said universities have continued to incur operating deficits and thus remain dependent on the sponsor, The ICFAI Society, for funding their operational and capital expenditure requirements. The ratings also consider the high dependence on IFHE and ICFAIAIN Foundation (which together operate most of the key business schools in the Group), with these two entities accounting for ~75% of the Group's revenues and operating earnings in FY2019. Further, the Group's overall performance is also dependent on the management programs, with the enrolments and other operational parameters continuing to be at modest levels for the engineering and distance learning programmes. Additionally, ICRA believes that faculty retention would also remain a key challenge, owing to the increasing competition in the higher education segment. ICRA also notes that the higher education sector in India is highly regulated and hence, any adverse developments in the regulatory front could pose concerns for the Group. While the key institutes continue to report a healthy placement track record for their management programmes, the ability to maintain a stable admission and placement track record and achieve the targeted operational parameters in the new projects undertaken will be critical from the credit perspective.

The Stable outlook reflects ICRA's expectation that the operational and financial performance of the ICFAI Group will continue to benefit from its established presence and strong track record in the higher education sector, good brand recognition enjoyed by its management program and healthy capitalisation levels, despite the large capital expenditure programme envisaged by the Group.

Key rating drivers and their description

Credit strengths

Established track record and reputation in the Indian higher education sector – The Group enjoys a strong track record of more than three decades in the higher education sector, with an established presence especially in the management education segment. The Group enjoys a national presence with seven ICFAI Business Schools (IBS), ten operational state private universities and one deemed university, operating at over 18 locations in India. While the admissions / enrolments at its flagship institute have remained healthy over the years, its seven other business schools have also witnessed a steady rise in enrolments during the recent fiscals (with all key institutes enjoying good brand recognition). Comfortable occupancy levels across major institutes coupled with a competitive fee structure lends visibility to revenues and cash flows.

Strong financial profile – The Group's financial profile is characterised by healthy credit metrics and comfortable liquidity position on the back of strong accruals generated over the years. Key ratios including total debt to operating surplus, interest coverage and debt service coverage ratio continued to be at comfortable levels of around 0.6 times, 29 times and 20 times, respectively in FY2019.

Credit challenges

High revenue concentration – The ICFAI Group's performance remains concentrated towards IBSH and other business schools, with them accounting for a major portion of its revenues and earnings. Dependence on these entities has remained high owing to the low contribution from the state private universities, some of which continue to report operating deficits. Further, given the increasing batch sizes and growing competition in the higher education segment, ensuring 100% placements, attracting students and faculty retention remain key challenges for the Group. Demonstrated operational track record, with strong performance witnessed in the management courses over the last decade provides some comfort.

Proposed large expansion programme – The ICFAI Group has a sizeable expansion plan with a capital expenditure of ~Rs. 855 crore proposed over the next two fiscals (FY2020 and FY2021). The projects at various locations are in the nascent stages of development. The same exposes earnings to execution related risks as any major time or cost overrun could adversely impact margins and return indicators. However, the Group's track record of establishing various universities across locations over the years and its strong financial profile provide some comfort.

Liquidity position: Strong

The Group's liquidity position has remained strong, driven by the healthy earnings generated in FY2019 with cash and liquid investments of Rs. 947 crore outstanding as on March 31, 2019. A considerable portion of the same is expected to be utilised towards funding its proposed capital expenditure programme in the coming fiscals. Despite the large outflow towards expansion of its campuses, healthy earnings from operations (with cash accruals of around Rs. 250 crore per annum) and large cash equivalents held are likely to support the Group's liquidity position.

Rating sensitivities

Positive Triggers – The ICFAI Group's long-term rating may be upgraded if the scale of operations and earnings continue to register healthy growth on a sustained basis and the business profile becomes more diversified, with reducing dependence on the IFHE and ICFAIAN Foundation, which generate a major portion of the revenues and earnings.

Negative Triggers – The ICFAI Group's rating would be prone to a downgrade if its Total Debt/OPBITDA exceeds 1.5 times on a sustained basis, owing to lower-than-expected earnings or a sharp rise in debt levels on the back of higher-than expected capital expenditure incurred by the Group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Higher Education Sector
Parent/Group Support	Not applicable
Consolidation / Standalone	The ICFAI Group is considered to share a common credit profile because of the high degree of business as well as the financial linkages among the entities. Also, all the entities operate as an extended arm of the sponsor with separate legal existence for regulatory and operational reasons. Earlier, the ratings were based on the guarantee extended by The ICFAI Society for the bank facilities of all other entities in the Group. The list of entities considered while taking a consolidated view are given in Annexure-2.

About the entity

The ICFAI University, Nagaland has been established by an Act of Nagaland State Legislative Assembly vide Act No. 2 of 2006. The University had begun its operations on September 3, 2007 and currently operates from its permanent campus in Sovima, Nagaland spread over 10.03 acres of land. Currently the University offers BBA, BCA, BA, B. Com, MBA, MA, M.Phil. and PhD programs, and Certificate courses in Computer Hardware & Networking and Banking and Insurance Management.

Key financial indicators (ICFAI Group consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	480.9	567.2
PAT (Rs. crore)	199.7	252.7
OPBDIT/OI (%)	41.3%	42.6%
RoCE (%)	16.5%	17.0%
Total Debt/TNW (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.5	0.6
Interest coverage (times)	37.3	29.6

Note: FY2019 financials are provisional; Source: ICFAI

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Rating	FY2020	FY2019	FY2018
	Instrument				09-Oct 2019	05-April 2019	09-July 2018	-
1	Overdraft	Long Term	3.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (SO)(Stable)	[ICRA]A(SO) (Stable)	-
2	Short-term Loan	Short Term	12.00	12.00*	[ICRA]A1+	[ICRA]A1+ (SO)	[ICRA]A1 (SO)	-

* *as on March 31, 2019; Source: ICFAI*

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	-	-	-	3.00	[ICRA]A+(Stable)
NA	Short-term Loan	Mar 2019	-	Dec 2019	12.00	[ICRA]A1+

Source: ICFAI

Annexure-2: List of entities considered for consolidated analysis

Entity Name	Ownership	Consolidation Approach
The ICFAI Society	-	Full Consolidation
ICFAI Foundation for Higher Education	-	Full Consolidation
ICFAIAN Foundation	-	Full Consolidation
ICFAI University Sikkim	-	Full Consolidation
The ICFAI University Dehradun	-	Full Consolidation
The ICFAI University Jharkhand	-	Full Consolidation
The ICFAI University Mizoram	-	Full Consolidation
The ICFAI University Nagaland	-	Full Consolidation
The ICFAI University Meghalaya	-	Full Consolidation
The ICFAI University Raipur	-	Full Consolidation
The ICFAI University Tripura	-	Full Consolidation
The ICFAI University Jaipur	-	Full Consolidation
The ICFAI University Himachal Pradesh	-	Full Consolidation

Note: ICRA has considered the consolidated financial statements of all the above listed entities, because of the high degree of business as well as the financial linkage between them; Source: ICFAI

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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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