

December 05, 2022^(Revised)

Yenepoya (Deemed to be university): Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/Term Loan	55.00	55.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Long Term - Fund Based/Overdraft	10.00	10.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Short Term – Non-Fund Based/BG	5.00	5.00	[ICRA]A3; upgraded from [ICRA]A4+
Total	70.00	70.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade reflects Yenepoya's (deemed to be university) improved financial profile and liquidity position in the current fiscal post the receipt of advances of around Rs. 69 crore from its promoter trust - Islamic Academy of Education (IAE). These funds have been used to prepay the outstanding debt of Rs. 51 crore. This is expected to significantly improve debt coverage indicators like Debt/OPBDITA and interest coverage in the next fiscal to around 1.5 times and to more than 6 times, respectively from 2.7 times and 4.5 times, respectively in FY2021. Moreover, the ratings factor in 15% growth in the operating income in FY2022 on the back of addition of new courses, increase in batch size and revision of fee structure. The trust continues to generate healthy cash accruals and its net worth stood close to Rs. 158 crore as on March 2022. Further, Yenepoya's reputation in and around Mangalore and its vast experience in the field of education are other positive factors. Healthy enrolment levels across the courses, especially in its flagship medical and dental science courses further strengthen the operating profile. The ratings also take into consideration the autonomy enjoyed by Yenepoya over its fee structure and admission criteria due to its recognition as a deemed to be university.

The ratings, however, are constrained by the risk of short-term cash flow mismatch due to different fee collection frequencies and periods across different courses, necessitating prudent cash flow management to ensure regular debt servicing. Moreover, the operating margins continue to be at moderate level of around 11-14%, constraining the return indicators. The ratings continue to be affected by the regulatory risks faced by the university, which are common to self-financing higher educational institutions. Besides, intense competition in the sector puts pressure on attracting students and retaining quality faculty members. The ratings are further constrained due to elevated receivables cycle in the past two years as the university permitted students to make fee payments in instalments. ICRA also notes that the university has significant capital expenditure requirements to replace expensive medical equipment and to upgrade facilities to be able to maintain their reputation as a top institute.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the university would continue to generate healthy cash accruals going forward and maintain a healthy financial risk profile along with a comfortable liquidity position.

Key rating drivers and their description

Credit strengths

Receipt of advances from IAE enabled prepayment of debt and improved liquidity profile – Advances worth Rs. 69 crore given to the university's promoting trust, Islamic Academy of Education, has been repaid to the university in full, which has enabled it to prepay loans worth Rs. 51 crore, reducing the outstanding debt figure and interest payments significantly.

Healthy growth in revenues and accruals in FY2022 – The university has recorded a revenue growth of 15% in FY2022 and is expected to continue the growth momentum in the forthcoming years. Margins are likely to improve as the education sector returns to normalcy from pandemic related disruptions.

Established track record and experience of Yenepoya Group in the higher education sector – Yenepoya (deemed to be university) has a proven track record of over 10 years in managing educational institutions. It has been ranked 97th in the NIRF 2022 university rankings. The Yenepoya Dental College has been ranked 23rd in the NIRF 2022 rankings for dental colleges. The university chancellor, Mr. Yenepoya Abdulla Kunhi, has vast experience of nearly three decades in managing group companies operating in industries such as timer, real estate, education, social welfare etc.

Healthy enrolment levels along with new courses and increase in batch size support revenue visibility – The university has been recording enrolment levels of more than 90% over the last 3-4 years. The medical and dental colleges, which offer the flagship under graduate and post-graduate courses, recorded full occupancy over the last five academic years, contributing a major portion to the university's revenues. Over the last two academic years, the university has added new courses in arts, commerce, science and management, and has increased the number of sanctioned seats to 1,500. ICRA derives comfort from the increased revenue visibility due to healthy demand for the courses offered by the university. Its scale of operations will significantly improve in the coming years with new courses and colleges.

Comfortable financial profile characterised by healthy coverage indicators and capital structure – The university's gearing remained comfortable at 0.7 times as on March 31, 2022 owing to healthy accruals and healthy growth in revenue despite undertaking significant and consistent capital expenditure. The financial profile remained healthy with a net worth of Rs. 158 crore and an interest coverage of 4.5 in FY2022, and is projected to improve considerably over the coming years. Its Debt/OPBITDA is expected to be around 1-1.5 times in FY2023, considering prepayment of debt.

Credit challenges

Risk of short-term cash flow mismatch – There is a risk of short-term cash flow mismatch due to different fee collection frequencies and periods across different courses. The university receives the major portion of its cash inflows in the form of fees within a few months at the beginning of the academic year. The academic year for under-graduate courses begins in June-August and that of post-graduate courses in April-May. This leads to short-term borrowings during the period of low collections, that is from December-March.

Susceptibility to regulatory changes – The higher education sector in India is highly regulated, thus exposing the university to any regulatory changes in the future. The university's various colleges/courses must abide by the rules framed by various regulatory bodies including the Medical Council of India, the Dental Council of India, the Indian Nursing Council etc. Further, the university is subject to annual review by the University Grants Commission.

Intense competition in the higher education sector – The university faces stiff competition in attracting students and top faculties due to the presence of many quality institutions in and around Mangalore. However, the risk is partly mitigated by

the reputation of the Yenepoya University and favourable demand-supply gap in its flagship courses in the medical and dental science disciplines.

Significant capex requirement for upgradation of facilities and infrastructure – The university incurred capex worth ~Rs. 20 crore in FY2021 and ~Rs. 19 crore in FY2022 mainly on import and upgradation of medical equipment, infrastructure development and regular maintenance of facilities. ICRA expects the university to continue to spend ~Rs. 15-20 crore per annum on upgradation of equipment, especially in the medical and dental colleges. The university plans to increase the number of sanctioned MBBS seats and if the same is approved, capex of Rs. 35-40 crores would be required to improve infrastructure, which would be 80-85% debt funded.

Elevated receivables cycle in past two years – The receivables cycle has increased in the past two years as the university allowed students to pay fees in instalments to alleviate financial constraints arising from the pandemic. The fee receivables have gone up to ~Rs. 82 crore as on March 31, 2022 from ~Rs. 77 crore as on March 31, 2021. However, the receivables cycle is expected to decrease in the current fiscal once fee collection periodicity is restored to an annual basis.

Liquidity position: Adequate

YDU’s liquidity is expected to remain adequate over the near term. The university had cash and liquid investments of ~Rs. 14 crore as on March 31, 2022. ICRA expects the university to generate cash flow from operations worth ~Rs. 35-40 crore per annum over the next three years against term debt repayment obligations of ~Rs. 9-15 crore in FY2024 and FY2025. The cash accruals are expected to be adequate to fund the university’s capex of ~Rs. 15-20 crore per annum. ICRA also derives comfort from the moderate utilisation of working capital limits by the university, which stood at an average of 41% over the 18-month period ending in September 2022.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a sustained growth in revenues and earnings, backed by improvement in liquidity.

Negative factors – Pressure on the ratings could arise for reasons including large advances to group entities, a large debt-funded capital expenditure or a delay in collection of receivables, leading to weakening of the liquidity profile on a sustained basis. Specific credit metrics that could lead to ratings downgrade would be Total Debt/OPBDITA of more than 3 times.

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 ratings, ICRA has considered the standalone financials of Yenepoya (Deemed to be university)

About the company

Yenepoya (Deemed to be University) is a registered trust established in 2008 for running a private university. It was granted recognition as a deemed to be university by the UGC in February 2008 and was recognised as a minority education institution in 2011. It operates 10 institutes, offering more than 88 courses in multiple disciplines ranging from medical and dental science to arts, commerce and management.

The trust is sponsored by the Islamic Academy of Education, another registered trust, which operates an educational institute affiliated to Visvesvaraya Technological University, Belgavi. The trusts are promoted by Yenepoya Group of Companies, which has varied interests in fields such as education, healthcare, timber, hospitality, trade, etc.

Apart from teaching colleges, the deemed to be university also operates hospitals as a part of the medical, dental, ayurveda and homeopathy colleges. The flagship courses offered by the deemed to be university include under-graduate and post-graduate courses in medical science and dental science.

Key financial indicators

Yenepoya (Deemed to be University)	FY2021	FY2022
Operating Income (Rs. crore)	308.7	356.4
PAT (Rs. crore)	17.9	13.7
OPBDITA/OI (%)	14.1%	11.4%
PAT (%)	5.8%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.6
Total Debt/OPBDITA (times)	2.4	2.7
Interest Coverage (times)	4.8	4.5
DSCR	2.3	2.1

Source: Yenepoya (Deemed to be University)

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; DSCR: Debt Service Coverage Ratio

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated	Amount Outstanding as on October 11, 2022	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				December 05, 2022	September 29, 2021	May 29, 2020	-	Nov 14, 2018	
1 Fund Based/ Term Loans	Long Term	55.00	40.29	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	-	[ICRA]BB+ (Stable)	
2 Fund Based/ Overdraft	Long Term	10.00	5.54	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Negative)	-	[ICRA]BB+ (Stable)	
3 Short Term - Non Fund Based/BG	Short Term	5.00	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A4+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund Based/ Term Loan	Simple
Long-term – Fund Based/ Overdraft	Simple
Short Term - Non-Fund Based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [click here](#)

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-I	2016	NA	FY2028	47.7	[ICRA]BBB- (Stable)
NA	Term Loan-II	2015	NA	FY2022	6.0	[ICRA]BBB- (Stable)
NA	Term Loan-III	2015	NA	FY2022	1.3	[ICRA]BBB- (Stable)
NA	Overdraft	NA	NA	NA	10.0	[ICRA]BBB- (Stable)
NA	Bank Guarantee	NA	NA	NA	5.0	[ICRA]A3

Source: Yenepoya (Deemed to be university)

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

Document dated December 05, 2022 has been corrected with revisions as detailed below:

- *KFI table on page no. 4: figures related to Operating Income and PAT of FY2021 for Yenepoya(Deemed to be university) has been corrected*
- *Instrument details of the entity's Long-term fund based facility has been corrected to "Overdraft" in the "Summary of rating action" table on page no.1, "Rating history for past three years" table on page no. 4, and "Complexity level of the rated instruments" table on page no. 4.*

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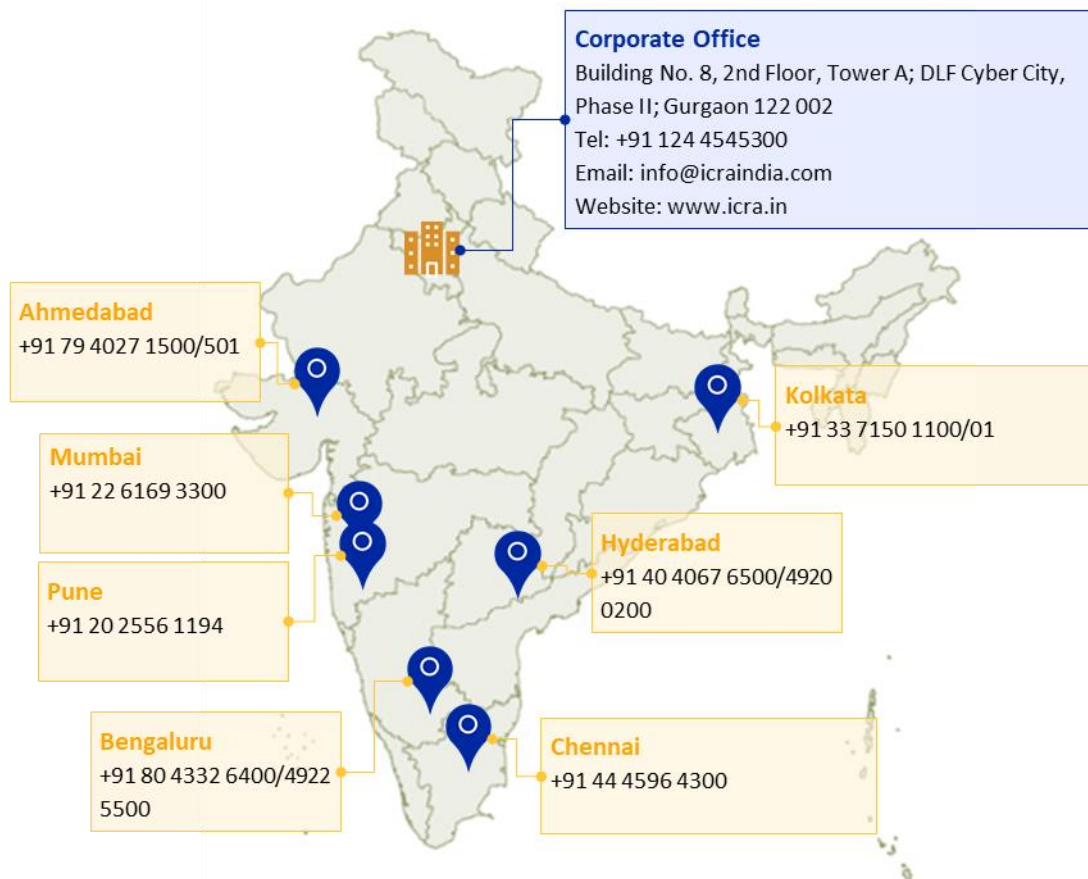
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