February 23, 2023

Sri Ramachandra Institute of Higher Education and Research Trust: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated limits	125.00	125.00	[ICRA]AA-(Stable); reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation reflects the healthy operational and financial performances of Sri Ramachandra Institute of Higher Education and Research Trust (SRIHERT) in FY2022 and ICRA's expectations of continued healthy performance over the medium term, supported by its strong reputation in the medical education sector in India. The trust's gross receipts grew by 16% YoY to Rs. 688 crore in FY2022, primarily driven by an increase in fees for medical courses from the academic year (AY) 2020-21, which led to an additional inflow of ~Rs. 70 crore per batch, while its operating margins sustained at ~55%. ICRA expects the trust to record gross receipts worth ~Rs. 710-740 crore in FY2023 with the operating margin sustaining above 50% over the next 2-3 years. SRIHERT continues to maintain its debt free capital structure with a strong net worth base of more than Rs. 1,100 crore as on March 31, 2022. The trust's financial risk profile is further supported by free cash and fixed deposits of more than Rs. 800 crore as on September 30, 2022.

The rating continues to favourably consider the established track record of SRIHERT spanning more than three decades and strong reputation of its medical college in India, which ranked continuously among the top 15 in the country in the National Institutional Ranking Framework (NIRF). The rating also considers the sustained high enrolment levels in its flagship courses and efforts being taken by the university to improve its revenue diversification by offering additional courses in the non-medical education space. The rating also reflects the trust's status as a deemed university and its A++ accreditation by NAAC, which provides considerable autonomy to the university in matters relating to offering new courses and deciding fees.

The rating, however, continues to remain constrained by the high geographical and course concentration of SRIHERT's revenues with a single campus in Chennai and academic receipts from its medical college accounting for ~68% of its operating income in FY2022. The geographical concentration exposes the operations to the risk of disruption from localised events, including flooding. The ratings also consider the intense competition among self-funded educational institutions in the country along with high regulatory risks owing to stringent compliance requirements from different regulatory bodies. Any changes to the regulatory environment, including capping of fees, could have a material impact on the financial profile of the trust.

The Stable outlook on the long-term rating reflects ICRA's expectations that the trust will continue to maintain a comfortable capital structure and strong coverage indicators over the medium term, supported by a sizeable corpus and healthy accruals.

Key rating drivers and their description

Credit strengths

Long track record and established reputation – The university has a long track-record of more than three decades in the medical education sector. It has consistently ranked among the top-15 medical colleges in India as per the National Institutional Ranking Framework (NIRF) for the last five years. It is also recognised as a 'Category 1' institution by the University Grants Commission and 'A++' accreditation by the National Assessment and Accreditation Council. High ranking and accreditation of the university, coupled with its long track record, is expected to continue to enable it to attract and retain meritorious students and faculty members over the medium term.

Comfortable capital structure coupled with healthy corpus fund – The trust's capital structure remains comfortable with a sizeable net worth base of more than Rs. 1,100 crore as on March 31, 2022. The trust remains debt free, which further supports its capital structure. Over the years, the trust has built a sizeable corpus fund, aggregating to more than Rs. 800 crore as on September 30, 2022 (provisional), backed by healthy accruals. The trust's strong financial risk profile remains a source of comfort for the rating.

Stable cash flows underpinned by healthy enrolment levels across flagship courses – Fee receipts from medical and dental courses continue to be the mainstay for the trust, accounting for ~73% of its gross receipts in FY2022. The university has recorded 100% enrolment in its MBBS course over the last five academic years and more than 90% enrolment in its post-graduate medical courses, backed by its strong reputation. The enrolment levels in its dental college have dipped in the last two years due to lower demand for these courses among students. Nevertheless, the healthy enrolment levels in its flagship courses provide high revenue visibility for the university.

High degree of autonomy; favourable long-term outlook for higher education in India – The university's status as a deemed university allows it considerable autonomy in matters related to offering new courses and fixing the fee structure of courses, which in turn increases the operational flexibility of the university. Its medical college is among the few colleges in India with a sanctioned seat strength of 250 for MBBS course (the maximum strength allowed by the National Medical Council). With a high demand-supply gap in the medical education sector in India, ICRA expects the university to continue to benefit from the long-term visibility of demand for its courses.

Credit challenges

High concentration of revenue – The university's revenue remains concentrated in its medical college, which accounted for over 65% of its gross receipts in the last five years. This exposes the university to risks emanating from regulatory changes and weakening demand, among other factors. Moreover, the university operates out of a single campus in Chennai, which exposes it to the risk of disruptions caused by localised events. ICRA, however, notes the university's endeavours to diversify its revenue by offering new non-medical courses across engineering and management science, which are likely to bear fruit over the long-term.

Exposed to intense competition and regulatory risks – The higher education sector in India is highly regulated by multiple bodies including the University Grants Commission and National Medical Council with strict compliance requirements. This exposes the university to significant regulatory risks. Any unanticipated change in regulations, including capping of fees, could adversely impact the university's financial risk profile. The university is also exposed to intense competition from other private and public educational institutions. This risk is, however, largely mitigated by the university's high ranking and healthy reputation.

Liquidity position: Strong

SRIHERT's liquidity position remains strong, characterised by free cash and bank deposits worth more than Rs. 800 crore as on September 30, 2022 (provisional). The trust remains debt free and has no debt repayment obligations. ICRA expects the trust to generate cash flow from operations in the range of Rs. 400-450 crore p.a. over the next 2-3 years. Against this, SRIHERT is expected to incur capex of ~Rs. 300-400 crore p.a. towards acquisition of land and construction of new hostels and academic blocks, funded entirely through internal accruals.

Rating sensitivities

Positive factors – The rating may be upgraded if the trust's scale of operations and accruals register a significant growth along with increasing diversification of revenue on a sustained basis while maintaining a strong liquidity profile.

Negative factors – Pressure on the rating could arise in case of a substantial and sustained decline in revenue and accruals of the trust. Higher-than-expected debt-funded capital expenditure or regulatory developments adversely impacting the trust's financial risk profile and liquidity position could also put pressure on the rating. Specific credit metrics which could result in a rating downgrade include return on capital employed (RoCE) falling below 20% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Higher Education Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SRIHERT and Sri Ramachandra Institute of Higher Education and Research (Deemed to be University), as enlisted in Annexure II

About the company

Sri Ramachandra Institute of Higher Education and Research Trust (SRIHERT), formerly Sri Ramachandra University Trust, is a private not-for-profit institution which operates Sri Ramachandra Institute of Higher Education and Research (Deemed to be University), formerly Sri Ramachandra University. It was established in 1985 by Late N.P.V. Ramasamy Udyar. It was recognised as a Deemed University by the University Grants Commission in 1994 and operates out of a 175-acre campus in Chennai.

The university offers courses across medical sciences, dental sciences, paramedical sciences, management and engineering with a total student strength of ~8,800 in AY2023. The university has been accredited in the 'A++' grade by NAAC. It also operates a 1,600-bed tertiary care hospital (teaching hospital), which caters to the training needs of its students.

Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022
Operating income	590.3	687.6
PAT	321.2	388.3
OPBDIT/OI	53.3%	55.1%
PAT/OI	54.4%	56.5%
Total outside liabilities/Tangible net worth (times)	0.6	0.2
Total debt/OPBDIT (times)	0.8	-
Interest coverage (times)	65.9	181.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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 (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 23, 2023	Nov 29, 2021	Sep 30, 2020	-
1	Unallocated Limits	Long-term	125.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-
2	Term Loans	Long-term	-	-	-	-	[ICRA]A+ (Positive)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Unallocated Limits	Not applicable

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Unallocated Limits**	NA	NA	NA	125.00	[ICRA]AA-(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sri Ramachandra Institute of Higher Education and Research (Deemed to be University)	-	Full Consolidation

Source: Company data

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