December 30, 2022

ICFAI Foundation for Higher Education: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/CC	10.00	10.00	[ICRA]A+ (Stable); Reaffirmed
Long Term – Unallocated	36.03	36.03	[ICRA]A+ (Stable); Reaffirmed
Total	**46.03**	**46.03**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has taken a consolidated view of The ICFAI Society, ICFAI Foundation for Higher Education (IFHE) 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 is the sponsor for other entities in the Group and owns most of the assets, including some of the campuses utilised by these entities. Details of various entities operating under the ICFAI Group, which have been consolidated, are given in Annexure II.

The rating reaffirmation considers the expected steady operational and financial performances of the ICFAI Group over the medium term, driven by continued stable growth in enrolments and periodic fee revisions. The revenues of the Group grew by 18% to Rs. 574 crore in FY2022 and are expected to grow at a healthy pace in the current fiscal as well. Further, the Group's financial profile continues to be robust, characterised by a conservative capital structure (reflected by Total Debt/ Operating Surplus of 0.3 times for FY2022), healthy surpluses, and strong liquidity position on the back of strong cash flow from operations generated over the years. Further, the Group enjoys healthy financial flexibility, backed by its sizeable cash and cash equivalents estimated at more than ~Rs. 1,300 crore as on March 31, 2022. While the Group has plans of undertaking capex, which could result in some moderation in cash reserves over the medium term, these are still expected to remain high. The rating reaffirmation also factors in the established presence of the ICFAI Group in the field of higher education, providing management courses.

The rating continues to factor in the modest performance of the state private universities under the ICFAI Group. Most of the said universities have continued to report tepid earnings and thus remain dependent on the sponsor for funding their operational and capital expenditure requirements. The rating also considers the Group's high dependence on IFHE and The ICFAI Society (which together operate most of the key business schools in the Group), as these two entities account for ~75% of the Group's revenues. Further, the Group's overall performance is also dependent on the management programmes, with enrolments and other operational parameters remaining at moderate levels for other programmes. Additionally, ICRA believes that attracting students and retaining faculty members would remain key challenges owing to the increasing competition in the higher education segment. The demonstrated operational track record, with strong performance in the management courses over the last decade, provides comfort. However, the ability to maintain a stable admission and placement track record and achieve the targeted operational parameters will be important from the credit perspective. ICRA also notes that the higher education sector in India is highly regulated, which exposes the Group to regulatory risks associated with the stringent compliance requirements.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that the operational and financial performances of the ICFAI Group will continue to benefit from a steady increase in its student strength. Further, ICRA expects the Group's liquidity position and credit metrics to remain strong, led by generation of surplus cash flow from operations.

Key rating drivers and their description

Credit strengths

Established track record and reputation in the Indian higher education sector – Founded in 1984, the ICFAI Group is one of the well-established educational institutions offering higher education (especially in the management education segment) in India. The Group has a national presence with nine ICFAI Business Schools (IBS), 10 operational state private universities and one deemed university, operating across 17 locations in India. The Group's operational strengths are reflected in the continued high enrolments in its management courses and the large student strength of more than ~22,000 in the academic year (AY) 2022, which together with a competitive and steady fee structure, lend visibility to its revenues and cash flows.

Robust financial profile – The Group has a conservative capital structure, with minimal reliance on debt. Healthy surplus generation continues to aid in strong liquidity, facilitating a build-up of sizeable cash and liquid balances. Although the Group sometimes uses a temporary overdraft facility and has marginal other borrowings, it continues to have a negative net debt position. Steady scale and surplus margins, together with surplus liquidity available to fund the company's proposed capital expenditure plans without any incremental reliance on external borrowings, are expected to keep the Group's financial profile robust (reflected in estimated Total Debt/ Operating Surplus of 0.3 times for FY2023).

Credit challenges

High revenue concentration – The ICFAI Group's performance remains concentrated towards IBS-Hyderabad and other business schools, which account for more than 75% of the Group's revenues and earnings. Dependence on these institutions has remained high owing to the low contribution from the state private universities, some of which continue to report operating deficits. Nonetheless, demonstrated operational track record, with strong performance witnessed in the management courses over the last decade provides comfort with healthy enrolments and placements witnessed over the years.

Intense competition puts pressure on attracting and retaining talented students and faculty – Given the large batch sizes and growing competition in the higher education sector, ensuring 100% placements, attracting students and retaining faculty remain key challenges for the Group. The risk is, however, partially mitigated by the Group's established brand position and extensive track record of operations of nearly four decades.

Exposure to regulatory risks – The flagship institute of the Group in Hyderabad has a deemed university status under Section 3 of the UGC Act, 1956, because of which it enjoys significant academic and operational autonomy in deciding its fee structure, student intake and academic content. However, the Group needs to continuously comply with regulations of the state government as well as of various regulatory agencies, such as the University Grants Commission (UGC), particularly for the other institutes under its umbrella. Any adverse regulatory change could impact its performance.

Liquidity position: Strong

The Group's liquidity position is strong, driven by healthy surplus cash flow generated from operations over the years. This is also corroborated from the healthy cash and cash equivalents, estimated to be more than ~Rs. 1,300 crore as on March 31, 2022. It is noted that a part of the accumulated cash balance needs to be utilised towards funding the Group's proposed capital expenditure plans in the near-to-medium term. Despite the expected outflow towards capex, continued healthy cash flow generation from operations and its large surplus cash reserves are likely to keep the Group's liquidity position strong.

Rating sensitivities

Positive factors – The rating may be upgraded if the scale of operations and earnings register a healthy growth on a sustained basis, while achieving more diversification across streams and institutes, besides maintaining a healthy credit profile.

Negative factors – The rating may be downgraded if there is a significant and sustained deterioration in the performance and a sharp rise in debt levels on the back of significant capital expenditure incurred by the Group, impacting its credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Higher Education Sector Rating Approach - Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	The ICFAI Group is considered to share a common credit profile because of the strong operational and 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. The list of entities considered while taking a consolidated view has been given in Annexure II.

About the company

IFHE was carved from its parent ICFAI in 2005 and has been registered as a charitable trust. It was declared as a deemed university, with ICFAI Business School, Hyderabad (IBSH) as a constituent institution. In FY2011, IFHE started the Faculty of Science & Technology, under which various streams of engineering programmes are offered. The Faculty of Law offers five-year integrated law programme. Its 91-acre campus, on the outskirts of Hyderabad, has more than 15 lakh sq. ft. of built-up space for academic, residential and recreational facilities.

Key financial indicators

ICFAI Group consolidated	FY2021	FY2022
Operating income	487.9	574.2
PAT	214.4	296.0
OPBDIT/OI	38.8%	40.8%
PAT/OI	43.9%	51.6%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.6	0.3
Interest coverage (times)	21.5	45.9

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 March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Dec 30, 2022	Sep 30, 2021	Jul 06, 2020	Oct 09, 2019	Apr 05, 2019
1	Cash Credit	Long Term	10.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-	-
2	Term loan	Long Term	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Unallocated	Long Term	36.03	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based/Cash Credit	Simple
Long Term-Unallocated	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	Cash Credit	-	-	-	10.00	[ICRA]A+ (Stable)
NA	Unallocated	-	-	-	36.03	[ICRA]A+ (Stable)

Source: *ICFAI*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Entity	Ownership	Date of Issuance
The ICFAI Society	-	Full Consolidation
ICFAI Foundation for Higher Education	-	Full Consolidation
ICFAI University Jaipur	-	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
ICFAI University Himachal Pradesh	-	Full Consolidation

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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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