

Press Release

The Neotia University

March 11, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	22.40	ACUITE BBB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	22.40	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) to the Rs. 22.40 Cr bank facilities of The Neotia University. The outlook is '**Stable**'.

The rating is driven by an improvement in the overall business risk profile of the university marked by increase in the operating income and sharp improvement in profitability arising from growth in student admission. The rating also factors in its experienced trustees and financial flexibility of the Ambuja-Neotia group. These strengths are, however, partly offset by the below average financial risk profile of the university and exposure to intense competition and stringent regulatory framework for the educational sector in India.

About the Company

Promoted by the Ambuja Neotia Group in 2015, The Neotia University (TNU) was established vide the West Bengal State Government University Act XXIII of 2014 and enlisted & recognized by University Grant Commission (UGC), Government of India. The university has a campus size of 32 acre and is located in Diamond Harbour, near Kolkata. Currently, TNU has faculty strength of 157, student strength of around 3000 and 21 laboratory and workshops. The university is offering around 40 undergraduate, post graduate and doctorate courses.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of TNU to arrive at the rating. While arriving at the rating of TNU, Acuité has taken into account a strong level of support from the Ambuja-Neotia group given that the Chairman of the group Mr. Harshavardhan Neotia is the key trustee/Chancellor of the university.

Key Rating Drivers

Strengths

Experienced management

The key trustee/Chancellor of the The Neotia University, Mr. Harshavardhan Neotia has immense experience in the real estate and hospitality business of around three decades and promoted the Ambuja-Neotia group. Acuité believes that the trustee's extensive experience has helped the university to establish its position in the state of West Bengal.

Financial flexibility of the Ambuja-Neotia group

The Ambuja-Neotia Group has been promoted by the Neotia Family, which has been an integral part of the business community in Kolkata for nearly 125 years. The group through its various Joint Venture Companies and Special Purpose Vehicles (SPVs) has been engaged in development of Real Estate properties, both housing and commercial complexes and in the Hospitality business. The group has executed more than 22 million square feet of development comprising of residential, commercial and hospitality projects through its various joint ventures and subsidiary companies over a period of the last 20 years and has established its brand which is widely recognized in the region. The group has also ventured into the states of Sikkim, Bihar, Punjab, Chhattisgarh and Maharashtra for undertaking various types of real estate and hospitality projects. The group has strong financial risk profile with a willingness to support their businesses, demonstrated from the continuous infusion of unsecured loans and donations into TNU.

Acuité believes that TNU, being a strategically important entity for the group shall continue to benefit from the financial, operational and management support from the Ambuja-Neotia Group as and when required. The Chairman of the group Mr. Harshavardhan Neotia is the principal trustee/Chancellor of the university which imparts further comfort to the rating. Any event that impinges the group's overall credit profile shall remain a key rating sensitivity.

Growth in student admission

The university has witnessed growth in student admission from 34 students in FY2016 to 2991 students in FY2022. Modern infrastructure, smart classroom and other facilities have enhanced the student enrolment. Thus, healthy growth in student admission coupled with modern infrastructure and continuous teacher's training is expected to enhance enrolment going forward.

Weaknesses

Below average financial risk profile

The university's below average financial risk profile is marked by low networth, high gearing and moderate debt protection metrics. The corpus fund of the university increased to Rs.2.03 Cr as on March 31, 2021 from Rs.0.17 Cr as on March 31, 2020 on account of retention of profits. Gearing of the university stood high at 14.57 times as on March 31, 2021 as against 120.07 times as on March 31, 2020. The moderate debt protection metrics of the university is marked by Debt Service Coverage Ratio at 1.91 times and Interest Service Coverage Ratio (ICR) at 1.91 times as on March 31, 2021. Acuité believes of the university that financial risk profile is expected to improve over the medium term.

Exposure to intense competition and stringent regulatory framework for the educational sector in India

The university faces intense competition from other private institutions offering similar courses. Given the competition, the ability of the university to attract requisite students in tune with its sanctioned intake would be a challenge. Further, the Indian education industry is highly regulated and consequently subject to the stringent regulatory framework, which is to be followed by group operated institutes. Any major change in regulatory framework by the Government of India or change in policy by affiliated boards will have major impact on the revenue, financial and operating performance of the university. Acuité believes that TNU's ability to scale up its operations while maintaining profitability will be a key rating monitorable.

Rating Sensitivities

- Scaling up of operations while maintaining their profitability margin
- Addition of new curriculum leading to increase in number of enrolments
- Improvement of their capital structure

Material covenants

None

Liquidity Position: Adequate

The Ambuja-Neotia group have provided fund by the way of donations and unsecured loans to the university from time to time as required; which provides financial flexibility to the university. The net cash accruals is expected to be Rs. 7-8 Cr in FY2022-23 against yearly debt obligation of Rs. 1-1.5 Cr, over the medium term. The current ratio stood comfortable at 2.74 as on 31st March, 2021. The university has availed covid loan of Rs.2.57 crore. The fund based limit remains utilised at 43 per cent over the fifteen months ended December, 2021. The cash and bank balances of the university stood at Rs.0.05 Cr in FY2021. Acuité believes that going forward the liquidity position of the university will remain moderate and hence a key monitorable over the medium term due to leveraged capital structure.

Outlook: Stable

Acuité believes that the outlook on TNU will be 'Stable' over the medium term on account of experienced management, financial flexibility of the Ambuja-Neotia group and growth in student admission. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the university's revenues or profit margins, or in case of deterioration in the university's financial risk profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	18.50	16.49
PAT	Rs. Cr.	1.86	0.08
PAT Margin	(%)	10.04	0.48
Total Debt/Tangible Net Worth	Times	14.57	120.07
PBDIT/Interest	Times	1.91	1.24

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB+ Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.70	ACUITE BBB+ Stable Assigned
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	19.20	ACUITE BBB+ Stable Assigned

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About Acuité Ratings & Research

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