ICRA

Higher Education Financing Agency

December 31, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AA- (Stable); rating reaffirmed
Total	**-**	**-**	

Rating action

ICRA has reaffirmed the issuer rating of [ICRA]AA- (pronounced ICRA double A minus)[1] outstanding on Higher Education Financing Agency (HEFA)[2]. The outlook on the rating is 'Stable'.

Rationale

The rating reaffirmation takes into account HEFA's parentage with majority shareholding by Government of India (90.9% as on June 30, 2018) and Canara Bank (*rated [ICRA]AAA (Negative) / [ICRA]A1+*; 9.1% as on June 30, 2018), and the company's experienced board composition and management team. During FY2019, HEFA has commenced lending operations and achieved a portfolio size of Rs.233 crore as on October 31, 2018. The company's clientele includes premier higher education institutions which are Government of India (GoI) funded / controlled. While the portfolio scale up has been slower than expected, ICRA takes note of the company's sizeable sanctions of Rs.6,580.5 crore as on October 31, 2018 which would aid in portfolio growth going forward. The rating also factors in operational support from Canara Bank which, currently helps HEFA in credit appraisal and assessment.

The rating is however constrained by the nascent stage of HEFA's operations, monoline nature of its business and the consequent product concentration. Given that the company has recently commenced operations, its ability to maintain healthy asset quality and collection efficiencies going forward remains to be seen. While the escrow mechanism with borrowing institutions provides some comfort on the instalment collections (escrow quantum reduced to 5% of the sanctioned amount vis a vis 10% which was as per the previous credit policy), servicing of interest by the institutions would be through government grants received by them. HEFA's lending spreads are expected to remain lean therefore its ability to maintain good operating efficiency and secure funds at competitive rates would remain crucial from a profitability perspective, going forward. HEFA is currently incorporated under Section 8 of the Companies Act 2013 and is registered as NBFC with the Reserve Bank of India (RBI).

Outlook: Stable

ICRA expects the company to report business growth while maintaining a comfortable capital structure and asset quality. The outlook may be revised to 'Positive' if HEFA is able to keep credit costs under control, diversify its funding profile and report healthy capitalisation profile as business grows. The outlook may be revised to 'Negative' if the asset quality and capital profile weakens and liquidity profile deteriorates with business expansion .

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

Parentage with majority shareholding by Government of India and Canara Bank – HEFA has been set up by GoI as a joint venture with Canara Bank. As on June 30, 2018, GoI and Canara Bank held equity stake of 90.9% and 9.1% respectively. Under the Revitalising Infrastructure and Systems in Education (RISE) initiative announced during the budget for FY2019, the Union Cabinet has subsequently approved increasing the authorised capital base of HEFA to Rs.10,000 crore (from the earlier Rs.2,000 crore) which would support future growth in portfolio. GoI and Canara Bank is expected to have a combined eventual equity share of at least 66.0% over the medium term. ICRA takes note of HEFA's majority shareholding with GoI and Canara bank and expects timely capital support from them going forward.

Niche focus on financing capital expenditure requirements of higher education institutes which are centrally funded / controlled – HEFA has been set up with the primary objective of lending to GoI controlled / funded higher education institutions to meet their capital expenditure / infrastructure requirements. Financing to these institutions would be under five windows identified under RISE initiative with varying levels of dependence on GoI grants for servicing principal portion of the loan – depending on the vintage and type of the institution. Interest servicing of these loans would however be entirely through GoI grants to such institutions. ICRA also takes note of the escrow mechanism wherein the borrowing institution is required to maintain to one half-yearly instalment in the principal escrow account at the time of sanctioning of the loan (about 5% of the loan amount as against 10% as per the previous credit policy) and replenish the same on a half-yearly basis post draw-down. However, the company's portfolio is expected to be concentrated on a single sector thereby resulting in low earnings diversification.

Experienced board composition and management team; operational support from Canara Bank – The company's eight-member Board of Directors (BoD) comprises experienced personnel from the fields of education and banking while the Chairman of the BoD is the Secretary, Ministry of Human Resource Development (MHRD). Presently, the company has a lean management team consisting of personnel with established banking and credit experience in Canara Bank. The management team in HEFA is likely to remain lean over the next few years as it would receive support from Canara Bank for project appraisals, technical evaluations and legal appraisals for a management fees of 1% of the disbursements per annum.

Reputed target borrower profile with expected strong growth prospects – The company's target borrower profile includes premier higher education institutions such as Indian Institute of Managements (IIMs), Indian Institute of Technology (IITs), National Institute of Technology (NITs), Indian Institute of Science Education and Research (IISERs) and other central universities. Established brand of these institutions with steady student inflows offers strong growth prospects for HEFA given the growing infrastructure needs of these institutions.

Credit challenges

Nascent stage of operations, limited track record– HEFA was incorporated in May 2017 and has recently commenced lending operations. Given the nascent stage of its operations and the limited track record, the company's ability to maintain a healthy asset quality remains to be seen. Although escrow mechanism for repayment of principal and interest provides some comfort, ICRA notes that the effectiveness of the same would depend on the timely fund availability in escrow accounts which in turn would depend on fees receipts and/or GoI grants. However, considering the target borrower profile which comprises GoI funded / aided higher educational institutions, ICRA expects timely support from GoI to these institutions in the event of stress.

Lending spread expected to remain lean; ability to achieve good operating efficiency would be crucial – HEFA's lending spreads are expected to remain lean (in the range of 125-150 basis points) as it was formed to support the GoI funded/aided institutes in raising funds. Hence, the company's ability to maintain good operating efficiency levels and lean employee structure would remain crucial, considering the management fees it pays to Canara bank for disbursements during the year and prudential provision requirements.

Ability to secure low cost funds from diverse sources – As on date, the company does not have any borrowings and has been able to fund its portfolio entirely through equity. However, given the sizeable sanctions of Rs.6,580.5 crore as on October 31, 2018 and the expected scale up in portfolio, ICRA notes that the company would have significant funding requirements. Accordingly, it would be crucial for the company to diversify its funding profile to secure low cost funds to maintain comfortable liquidity profile and meet the envisaged portfolio growth.

Liquidity Position:

Currently, the company's liquidity profile is comfortable as the disbursements during H1 FY2019 were largely out of the equity capital of Rs.1,100 crore. However, considering the current sanctions and future envisaged sanctions, disbursements are expected to increase steeply going forward, thus HEFA's ability to source adequate and timely funding from diverse sources would be crucial from liquidity perspective.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	The assigned rating factors in the importance that HEFA holds for the GoI as a vehicle of policy implementation, and thus factors in timely GoI support
Consolidation / Standalone	Rating is based on standalone financial statements of the company.

About the company:

HEFA is a joint venture initiative between Ministry of Human Resource Development, Government of India and Canara Bank. HEFA is established with the objective of financing capital asset creation in higher education institutions which fall in the following categories:

- Institution funded by the Central Government covering at least 50% of its expenditure
- Institution owned or controlled by Central Government
- Institution set up and funded by the Central Government

HEFA was set up as part of GoI's budget announcement in February 2016 to finance the infrastructure needs of the aforementioned institutions. Under the Revitalising Infrastructure and Systems in Education (RISE) initiative announced during the budget for FY2019, the Union Cabinet has subsequently approved increasing the authorised capital base of HEFA to Rs.10,000 crore (from the earlier Rs.2,000 crore) wherein GoI's eventual equity contribution would be Rs.6,000.0 crore and that of Canara Bank's would be Rs.600.0 crore. Presently, the company has been constituted as not-for-profit under section 8 of the Companies Act, 2013 and is registered as non-banking finance company (NBFC) with the Reserve Bank of India.

Key financial indicators

	FY2017 NA	FY2018 (audited)
Total Income	NA	11.4
Profit after Tax	NA	8.5
Net worth	NA	308.5
Total Managed Portfolio	NA	-
Total Managed Assets	NA	308.5
Return on Average Managed Assets (%)	NA	5.5%
Return on Average Net worth (%)	NA	5.5%
Gross NPA (%)	NA	-
Net NPA (%)	NA	-
Net NPA / Net worth	NA	-
Managed Gearing (times)	NA	0.0
CRAR^ (%)	NA	NA

Note: Amounts in Rs. crore
Source: HEFA, ICRA research

Status of non-cooperation with previous CRA: None.

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	FY2019	FY2018		
					Dec 2018	Sep 2017	-	-
1	Issuer Rating	LT	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-

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
-	Issuer Rating	-	-	-	-	[ICRA]AA- (Stable)

Source: HEFA

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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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