February 21, 2020

Higher Education Financing Agency: [ICRA]AA-(Stable) assigned to proposed bank facilities

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Bank Facilities	2,500.00	[ICRA]AA-(Stable); Assigned
Issuer Rating	-	[ICRA]AA-(Stable); Outstanding
Total	**2,500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned to Higher Education Financing Agency's (HEFA) proposed bank facilities factors in its parentage, in the form of the Government of India (GoI; 90.9% stake as on December 31, 2019) and Canara Bank (rated *[ICRA]AA+(hyb)&*[1]; 9.1% stake as on December 31, 2019), the experienced board composition, management team and business scale-up over the last few quarters. The company's portfolio grew to Rs. 5,151.6 crore as on December 31, 2019 (Rs. 2,496.7 crore as on March 31, 2019) from Rs. 233.0 crore as on October 31, 2018, aided by the strong traction in disbursements towards existing sanctions and new client onboarding. ICRA expects HEFA's portfolio growth momentum to continue, driven by sizeable sanctions, proposals under consideration and the planned fund raising by the company. HEFA's clientele includes premier higher educational institutions, which are GoI-funded/controlled.

The rating also takes into account the limited seasoning of HEFA's portfolio, given the nascent stage of its operations. The company requires an escrow mechanism with borrowing institutions, which provides some comfort regarding the collection of instalments (escrow quantum, to the extent of 5% of the sanctioned amount, six months in advance). While the servicing of interest by the institutions would be through the Government grants received by them, the principal repayment would be either by the institution or through the GoI grants or both, depending on the window applicable to the borrowing institution. However, given the limited portfolio seasoning on the back of the steep growth over the last few quarters, HEFA's ability to maintain the healthy asset quality and collection efficiencies over a longer horizon remains to be seen. The rating also factors in the operational support from Canara Bank, which helps HEFA in credit appraisal and assessment and in keeping the operating expenses low. HEFA's lending spreads are, however, expected to remain lean, given its 'not-for-profit' nature of operations. Therefore, its ability to maintain good operating efficiency and secure funds at competitive rates would remain crucial from a profitability perspective. HEFA is currently incorporated under Section 8 of the Companies Act, 2013 and is registered as a non-banking financial company (NBFC) with the Reserve Bank of India (RBI).

The Stable outlook factors in the continued timely support from the GoI and Canara Bank and the expected business scale-up of HEFA while it maintains a comfortable capital structure and good asset quality.

Key rating drivers and their description

Credit strengths

Parentage with majority shareholding by GoI and Canara Bank – HEFA was set up by the GoI as a joint venture with Canara Bank. As on December 31, 2019, the GoI and Canara Bank held equity stakes of 90.9% and 9.1%, respectively. Under the Revitalising Infrastructure and Systems in Education (RISE) initiative announced in the Budget for FY2019, the Union Cabinet approved an increase in HEFA's authorised capital base to Rs. 10,000 crore (from Rs. 2,000 crore), which would support future portfolio growth. While the minimum combined shareholding of the GoI and Canara Bank would be 66%, ICRA notes that the

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[1] *& Rating Watch with Developing Implications*

shareholding of HEFA is likely to remain with the GoI and Canara Bank and in the current proportion. ICRA expects HEFA to continue to receive timely and adequate capital support from the parents, going forward. Till 9M FY2020, the company had received a capital infusion of Rs. 5,073.8 crore and its net worth stood at Rs. 5,393.8 crore as on December 31, 2019. Further, the GoI's Budget allocation for FY2021 includes a Rs. 2,200-crore outlay for HEFA.

Niche focus on financing capital expenditure requirements of Centrally-funded/controlled higher educational institutions – HEFA has been set up with the primary objective of lending to GoI-controlled/funded higher educational institutions to meet their capital expenditure/infrastructure requirements. Financing to these institutions would be under five windows identified under the RISE initiative with varying levels of dependence on GoI grants for servicing the principal portion of the loan, depending on the vintage and type of institution. The interest servicing of these loans would, however, be entirely through the GoI grants to such institutions. ICRA also takes note of the escrow mechanism wherein the borrowing institution is required to maintain one half-yearly instalment in the principal escrow account at the time of sanctioning the loan (about 5% of the loan amount) and replenish the same on a half-yearly basis post every drawdown. The company's portfolio is expected to be concentrated on a single sector, thereby resulting in low earnings diversification. As of December 31, 2019, the portfolio stood at Rs. 5,151.6 crore.

Experienced board composition and management team; operational support from Canara Bank – The company's 10-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). At present, the company has a lean management team consisting of personnel with established banking and credit experience in Canara Bank. HEFA's management team 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 fee 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 educational institutions such as Indian Institute of Management (IIM), Indian Institute of Technology (IIT), National Institute of Technology (NIT), Indian Institute of Science Education and Research (IISER) and other Central universities. The established brand of these institutions with steady student inflow offers strong growth prospects for HEFA, given the growing infrastructure needs of these institutions.

Credit challenges

Nascent stage of operations; limited track record – HEFA, which was incorporated in May 2017, recently commenced lending operations. The company's portfolio has witnessed a sharp scale-up over the last few quarters and stood at Rs. 5,151.6 crore as on December 31, 2019 (compared to Rs. 233.0 crore as on October 31, 2018). Given the nascent stage of operations and the limited portfolio seasoning, the company's ability to maintain a healthy asset quality remains to be seen. Although the escrow mechanism for the repayment of the principal and interest provides some comfort, ICRA notes that the effectiveness of the same would depend on the timely availability of funds in the escrow accounts, which, in turn, would depend on fee receipts and/or GoI grants. However, considering the target borrower profile, which comprises GoI-funded/aided higher educational institutions, ICRA expects adequate and timely support from the 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 100-125 basis points) as it was formed as a 'not-for-profit' organisation to support the GoI-funded/aided higher educational institutions in raising funds. Hence, the company's ability to maintain good operating efficiency levels and a lean employee structure would remain crucial, considering the management fees it pays to Canara Bank for disbursements during the year and its prudential provisioning requirements.

Ability to secure low-cost funds – As on date, HEFA does not have any borrowings and has been able to fund its portfolio entirely through equity. However, given the sizeable sanctions of over Rs. 10,000 crore yet to be disbursed, as on September 30, 2019, and the incremental proposals under consideration in the range of Rs. 4,000 crore, ICRA notes that the company would have significant funding requirements. Accordingly, it would be crucial for HEFA to diversify its funding profile to secure low-cost funds to maintain a comfortable liquidity profile and meet the envisaged portfolio growth. The company has received letters of authorisation from the Ministry of Finance for raising funds by way of GoI fully serviced bonds to the extent of Rs.

7,500 crore, which would aid HEFA in meeting its funding needs. Further, the company has received sanctions (short-term bridge loans) from commercial banks to the extent of Rs. 2,150 crore, which remain undrawn, thereby supporting its liquidity.

Liquidity position: Strong

HEFA's current liquidity profile is boosted by the equity-backed business growth with no reliance on borrowings till December 31, 2019. Based on the asset liability maturity (ALM) statement as of December 31, 2019, the company has no repayments over the next six months while inflows from loan maturity are around Rs. 324 crore. As on December 31, 2019, HEFA had an unencumbered cash and liquid investment balance of Rs. 261.2 crore and undrawn sanctions to the extent of Rs. 2,150 crore. While HEFA's parentage – being a GoI-owned entity, provides comfort regarding its ability to source funds on a timely basis, the existence of an adequate and diversified funding pipeline would be crucial from a liquidity perspective as the disbursements can witness spurts depending on the construction progress at the borrowing institutions.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if the company is able to demonstrate a sustained portfolio scale-up over the medium term, while maintaining a comfortable capitalisation profile, good asset quality and a diversified funding profile.

Negative triggers – Downgrade pressure on the rating could arise if there is a material weakening in the asset quality, impacting the earnings profile, or if there is an adverse change in the shareholding pattern with a significant reduction in the GoI's holding or lower-than-expected support from the GoI or Canara Bank.

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 held by HEFA for the GoI as a vehicle for policy implementation and thus factors in the timely support from the GoI
Consolidation/Standalone	Standalone

About the company

HEFA is a joint venture initiative between the Ministry of Human Resource Development (MHRD), the Government of India (GoI) and Canara Bank. HEFA is established with the objective of financing the capital asset creation of higher educational 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 the Central Government
- Institution set up and funded by the Central Government

HEFA was set up as a part of the 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 in the Budget for FY2019, the Union Cabinet approved an increase in HEFA's authorised capital base to Rs. 10,000 crore. At present, the company has been constituted as not-for-profit under Section 8 of the Companies Act, 2013 and is registered as a non-banking financial company (NBFC) with the Reserve Bank of India (RBI).

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	H1 FY2020 (Unaudited)	9M FY2020 (Unaudited)
Total Income	11.4	109.4	145.5	257.5
Profit after Tax	8.5	72.1	134.1	239.5
Net worth	308.5	2,844.3	4,848.5	5,393.8
Total Managed Portfolio	-	2,496.7	3,862.8	5,151.6
Total Managed Assets	308.5	2,879.8	4,863.9	5,414.5
Return on Average Managed Assets (%)	5.5%	4.5%	6.9%	7.7%
Return on Average Net Worth (%)	5.5%	4.6%	7.0%	7.8%
Gross NPA (%)	-	-	-	-
Net NPA (%)	-	-	-	-
Net NPA / Net worth	-	-	-	-
Managed Gearing (times)	0.0	0.0	0.0	0.0
CRAR (%)	NA	113.2%	125.9%	NA

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019	FY2018	FY2017
					21-Feb-2020	27-Dec-2019	31-Dec-2018	25-Sep-2017	-
1	Bank Facilities – Proposed	Long Term	2,500.0	-	[ICRA]AA- (Stable)	-	-	-	-
2	Issuer Rating	Long Term	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Bank facilities-Proposed	-	-	-	2,500.00	[ICRA]AA-(Stable)
-	Issuer Rating	-	-	-	-	[ICRA]AA-(Stable)

Source: HEFA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Analyst Contacts

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Mr. A.M. Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Niraj Jalan
+91 33 7150 1146
niraj.jalan@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999