February 11, 2022

Higher Education Financing Agency: Rating upgraded to [ICRA]AA (Stable); Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	2,500.00	3,500.00	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Positive)
Issuer Rating	NA	NA	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Positive)
Total	**2,500.00**	**3,500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in Higher Education Financing Agency's (HEFA) portfolio scale-up (increased to about Rs. 8,006 crore in December 2021 from Rs. 2,497 crore in March 2019) on the back of regular capital infusions and continued support from the shareholders. The Government of India (GoI) has a 90.9% equity stake in HEFA while the rest (9.1%) is held by Canara Bank (rated [ICRA]AAA (Stable). The company has received regular capital infusions from its shareholders, the most recent being Rs. 220 crore in FY2021 (Rs. 2,310 crore in FY2020). Accordingly, its capital profile remains comfortable with a gearing of 0.2 times as of September 30, 2021 (0.3 times as of March 31, 2021). The rating continues to factor in HEFA's experienced board and the operational support from Canara Bank. Canara Bank supports HEFA in the loan appraisal process and HEFA's senior management team consists of personnel on deputation (for a period of three years) from the bank. HEFA's lending spreads are, however, expected to remain lean, given its 'not-for-profit' nature of operations.

HEFA's risk profile is supported by its exposure to GoI-funded/controlled educational institutions. Financing to these institutions is under five windows, depending on the vintage. The company also ensures the setting up of an escrow mechanism with these borrowing institutions, which provides comfort regarding the collection of instalments (escrow quantum, to the extent of 5% of the sanctioned amount, six months in advance of the repayment date). While the servicing of interest by the institutions would be through the GoI grants received by them, the principal repayment would be either by the institution (via their fee receipts) or through the GoI grants or both, depending on the financing window. The asset quality is strong as of now with NIL non-performing assets (NPAs) as of December 2021.

The rating takes cognizance of HEFA's limited track record as it commenced operations in FY2019. HEFA's liquidity profile is strong at present, supported by its low leverage, expected inflows from advances and access to undrawn funding lines from banks. The company would, however, have to diversify its funding profile to support its growth and for securing funding at competitive rates.

Key rating drivers and their description

Credit strengths

Majority GoI holding; regular capital infusions and support from stakeholders led to portfolio scale-up – HEFA has been set up by the GoI as a joint venture (JV) with Canara Bank. As on September 30, 2021, the GoI and Canara Bank held equity stakes of 90.9% and 9.1%, respectively. The company has received regular capital infusions from the stakeholders – Rs. 220.0 crore in FY2021, Rs. 2,310.0 in FY2020 and Rs. 2,463.8 crore in FY2019, that has strengthened its capitalisation profile. As of

September 2021, its net worth and gearing stood at Rs. 6,373.2 crore and 0.2 times, respectively. ICRA expects HEFA to continue to receive timely and adequate capital support from the stakeholders, when required, and notes that the shareholding is likely to remain with the GoI and Canara Bank in the current proportion in the near to medium term.

Regular capital infusions have supported the portfolio scale-up for the past three years. HEFA's portfolio increased at a 2-year compound annual growth rate (CAGR) of 77% to Rs. 7.855.4 crore as of March 2021 from Rs. 2,496.7 crore as of March 2019. Its portfolio continued to increase and stood at Rs. 8,006.2 crore as of December 2021, despite witnessing an increase in prepayments and foreclosures in 9M FY2022.

Experienced board and operational support from Canara Bank – HEFA's board is fairly diversified, consisting of 10 experienced personnel from the fields of education and banking while the Chairman is the Secretary, Ministry of Education (MoE). HEFA's board is empowered to sanction loan facilities to eligible institutions in accordance with the company's credit policy. A sub-committee of the board monitors the progress of the projects funded by HEFA on a quarterly basis and interacts with the institutes as required, to review the progress.

HEFA currently has a lean management team consisting of personnel with established banking and credit experience in Canara Bank. Canara Bank extends operational support to HEFA by deputing experienced personnel as senior management to the company for a period of three years and by conducting the credit appraisal process of the loan sanctions. Canara Bank receives a management fee of about 1% of the annual disbursements from HEFA.

Focus on financing capital expenditure requirements of GoI-funded/controlled educational institutions – HEFA has been set up with the primary objective of lending to educational institutions, especially in the higher education segment. The company's target borrower profile includes premier higher education 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 brands of these institutions with steady student inflows offer strong growth prospects for HEFA, given the growing infrastructure needs of these institutions. Financing to these institutions would be under five windows identified with varying levels of dependence on GoI grants for servicing the principal portion of the loan, depending on their vintage and the type of institution (Window I – institutions established before 2008, Window II – institutions established between 2008 and 2014, Window III – Central universities established before 2014, Window IV – institutions established after 2014 and Window V – other institutions including entities of the Ministry of Health).

For loans extended under Windows IV/V, the GoI services 100% of the principal while it shall service 75% and 90% of the principal repayments, respectively, for loans offered under Windows II/III. Entities offered credit under Window I would have to fully service their principal obligations. The interest servicing of loans extended via any of the above windows would, however, be entirely through GoI grants. Institutes under Windows II/III/IV may commence repayment of the principal in entirety post 2/3/5 years from the completion of the project and certain windows may also service the interest going forward. However, the timeline for servicing the principal and interest in entirety by the respective institute would be determined by the MoE and HEFA after assessing the internal revenue generations of the respective institutes. As of December 2021, none of the institutes under Windows II/III/IV had started servicing their principal or interest obligations, in entirety, by themselves.

Going forward, incremental disbursements to institutions, which got loan sanctions under Windows IV and V, would be directly provided as grants from the GoI. Hence, the company is witnessing foreclosures and prepayments from the exposures under Windows IV and V. HEFA has formed committees for evaluating future growth prospects that encompass decisions on broadening the target segment (State-funded institutes, etc.) to increase the scale of operations.

Asset quality strengthened by GoI support and escrow mechanism – HEFA's asset quality is supported by the timely receipt of GoI grants and the prompt replenishment of the escrow balance by the institutions. The company has recorded nil NPAs as of December 2021.

The interest servicing of the loans is entirely through GoI grants to the institutions. ICRA takes note of the escrow mechanism wherein the borrowing institution is required to maintain one half-yearly instalment of the principal in the escrow account at the time of the sanctioning of the loan (about 5% of the loan amount) and replenish the same on a half-yearly basis post drawdown. In most cases, the replenishment of the escrow is instantaneous. Generally, the servicing of the loans extended by

HEFA has been as per the terms, though there were marginal delays (up to 3-5 days) in servicing by some of the borrower exposures due to operational reasons.

ICRA notes that based on the internal revenue generation of the institution, the onus of the debt servicing obligation may shift to the institution going forward with a corresponding reduction in support from the GoI. However, considering the target borrower profile, which comprises GoI-funded/controlled higher education institutions, ICRA expects adequate and timely support from the GoI to these institutions in the event of stress.

Credit challenges

Limited track record of operations – Incorporated in FY2018, HEFA commenced lending in FY2019 and the loan book increased to Rs. 8,006.4 crore in December 2021 from Rs. 2,496.7 crore in March 2019. HEFA has a limited track record in relation to the loan tenor of up to 10 years. The assets under management (AUM) is expected to grow at 25-30% per annum in the near to medium term.

Lending spread expected to remain lean – HEFA's lending spreads are expected to remain lean (in the range of 100-125 basis points) as it is a Section 8 not-for-profit company, formed to support GoI-funded/controlled institutes in raising funds. The operating expenses largely comprise the management fee paid to Canara Bank for the services received. In H1 FY2022, the company reported a provisional net profit of Rs. 238.7 crore (Rs. 441.6 crore in FY2021) with a return on managed assets (RoMA) of 6.1% (annualised; 6.0% in FY2021). However, HEFA's profitability would moderate, given the lean lending spread and the expected increase in the leverage.

Diversity in funding profile crucial for growth – As on December 15, 2021, the company had borrowings from two banks and sanctioned and unutilised bank lines of around Rs. 1,800 crore. However, given the sizeable sanctions yet to be disbursed of over Rs. 10,635 crore (under Windows I/II/III) as on September 30, 2021 and incremental proposals under consideration, ICRA notes that HEFA would have significant funding requirements going forward. Accordingly, it would be crucial for the company to diversify its funding profile to secure low-cost funds and to maintain a comfortable liquidity profile as the portfolio expands.

Liquidity position: Strong

HEFA had an unencumbered cash and bank balance of Rs. 46.6 crore as on November 30, 2021 with a debt obligation (principal + interest) of Rs. 186 crore during December 2021 to May 2022. Collections from advances (inflows) during the above-mentioned period are expected to be about Rs. 1,298 crore. Besides, HEFA had sanctioned and undrawn bank facilities of around Rs. 1,800 crore as on December 15, 2021, which supports its liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive if the company is able to scale up its portfolio while maintaining comfortable capitalisation. Maintenance of good asset quality and diversification in its funding profile would also positively impact the rating.

Negative factors – Pressure on the rating could arise 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. Material weakening in the asset quality, affecting the earnings or capital profile, would also negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Rating Methodology for Non-Banking Finance Companies](#) [Impact of Parent or Group Support on an Issuer's Credit Rating](#)
Parent/Group Support	The rating considers the importance held by HEFA for the GoI as a vehicle for policy implementation and thus factors in timely support from the GoI
Consolidation/Standalone	Standalone

About the company

HEFA is a JV initiative between the MoE (GoI) and Canara Bank. It was established in 2017 with the objective of financing the capital asset creation of Central Government funded/controlled educational institutions. At present, it 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). HEFA reported a profit after tax (PAT) of Rs. 238.7 crore (provisional) in H1 FY2022 on a loan book of Rs. 7,694.1 crore (provisional) as of September 2021. Its net worth stood at Rs. 6,373.2 crore (provisional) as of September 2021.

Key financial indicators

Higher Education Financing Agency	FY2020	FY2021	H1 FY2022*
Total income (Rs. crore)	379.1	597.4	292.7
Profit after tax (Rs. crore)	315.8	441.6	238.7
Net worth (Rs. crore)	5,470.2	6,131.8	6,373.2
Loan book (Rs. crore)	6,334.1	7,855.4	7,694.1
Total managed assets (Rs. crore)	6,528.5	8,089.4	7,777.59
Return on managed assets (%)	6.7%	6.0%	6.1%
Return on net worth (%)	7.6%	7.6%	7.7%
Managed gearing (times)	0.2	0.3	0.2
Gross NPA (%)	0%	0%	0%
Net NPA (%)	0%	0%	0%
Net NPA / Net worth (%)	0%	0%	0%
CRAR (%)	85.8%	76.6%	82.8%

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 11, 2022	Mar 31, 2021	Dec 27, 2019 Feb 21, 2020	Dec 31, 2018
1	Issuer Rating	LT	NA	NA	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**
2	Term Loans	LT	3,500.00	3,500.00	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**	**[ICRA]AA- (Stable)**	-

LT – Long Term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Term Loans	Simple

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]AA (Stable)
NA	Term Loan-I	March 2020	-	March 2030	1,301.0	[ICRA]AA (Stable)
NA	Term Loan-II	August 2020	-	August 2025	211.0	[ICRA]AA (Stable)
NA	Term Loan-III	December 2021	-	December 2026	1,700.0	[ICRA]AA (Stable)
NA	Term Loan - Proposed	NA	NA	NA	288.0	[ICRA]AA (Stable)

***Source:** Company*

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

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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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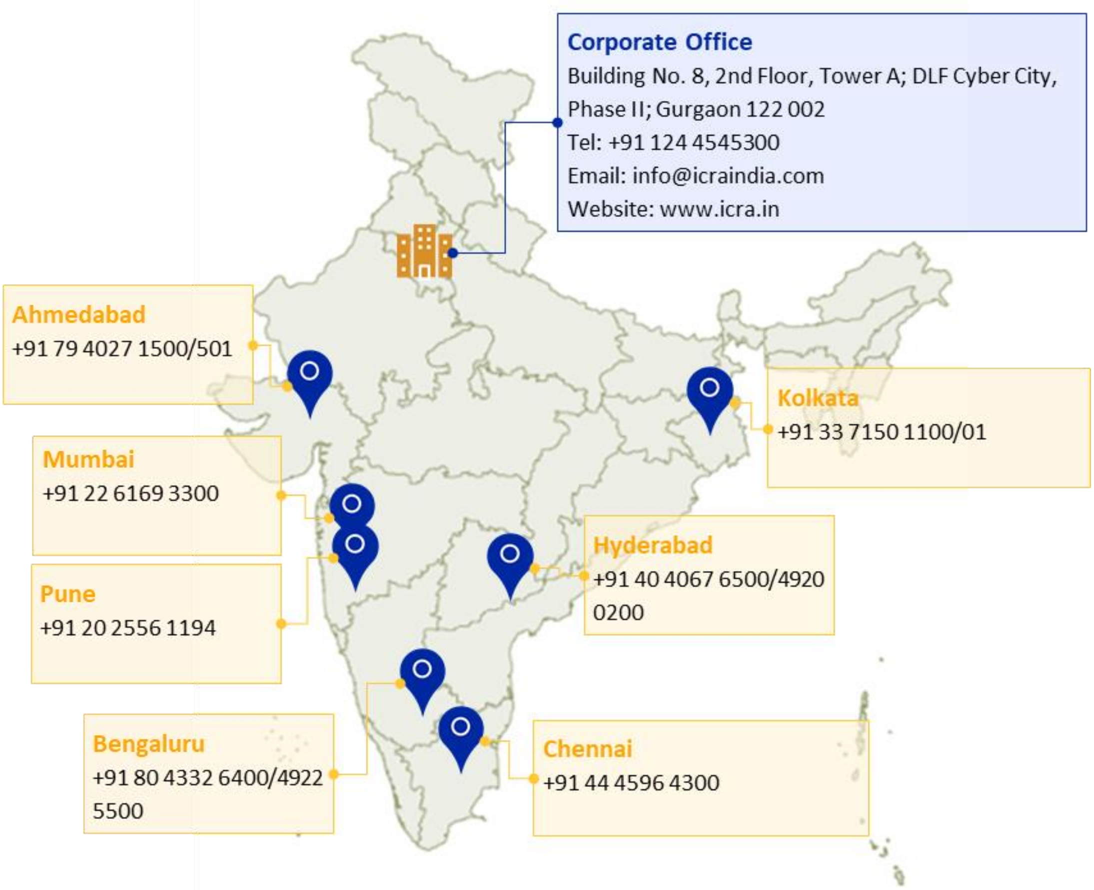

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