March 09, 2023

Higher Education Financing Agency: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based – Term loan	3,500.00	3,500.00	[ICRA]AA(Stable); reaffirmed
Issuer rating	NA	NA	[ICRA]AA(Stable); reaffirmed
Total	**3,500.00**	**3,500.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of the rating factors in Higher Education Financing Agency (HEFA)'s status as a majority Government of India (GoI) owned company, with demonstrated support from its shareholders in the past. 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). The rating continues to factor in HEFA's experienced board and the operational support from Canara Bank. The 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.

The company continues to have a strong asset quality, supported by the timely receipt of GoI grants and an escrow mechanism with the borrowing institutions, which provides comfort regarding the collection of instalments. There are NIL non-performing assets (NPAs) as of October 2022. 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[1]. ICRA notes the company's plans to expand the borrower base and reclassify the window categories under which the various institutes are funded.

The rating also takes cognizance of HEFA's limited track record as it commenced operations in FY2019. HEFA's lending spreads are expected to remain lean, given its 'not-for-profit' nature of operations. The company does not have any external borrowings as of date. Accordingly, its capital profile remains comfortable with a gearing of 0.0 times as of September 30, 2022 (0.2 times as of March 31, 2022). HEFA's liquidity profile is supported by expected inflows from advances and no external debt at present.

Key rating drivers and their description

Credit strengths

Majority GoI holding; demonstrated support from stakeholders – HEFA was set up by the GoI as a joint venture (JV) with Canara Bank. As on December 31, 2022, the GoI and Canara Bank held equity stakes of 90.9% and 9.1% respectively. The company received regular capital infusions from the stakeholders in the past – Rs. 220.0 crore in FY2021, Rs. 2,310.0 in FY2020 and Rs. 2,463.8 crore in FY2019, which strengthened its capitalisation profile. As of September 2022, its net worth stood at Rs.

[1] Windows have been identified on the basis of the vintage and type of institutions, with varying levels of dependence on GoI grants for servicing the principal portion of the loan; Window I – institutions established before 2008, Window II – institutions established between 2008 & 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

6,779.82 crore and there were no borrowings. While the company is expected to raise debt for portfolio growth over the near to medium term, 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.

Experienced board and operational support from Canara Bank – HEFA's board is constituted 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 the Indian Institute of Management (IIM), the Indian Institute of Technology (IIT), the National Institute of Technology (NIT), the 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 is currently being done through three windows (previously five windows) identified with varying levels of dependence on the GoI grants for servicing the principal portion of the loan, depending on their vintage and the type of institution. The interest servicing of the loans extended via any of the windows would, however, be entirely through the GoI grants.

Entities offered credit under Window-I would have to fully service their principal obligations. For loans extended under Windows II and III, the GoI services 75% and 90% of the principal repayments respectively. The interest servicing of loans extended via any of the above windows would, however, be entirely through the GoI grants. Institutes under Windows II/III may commence repayment of the principal in entirety, post 2/3 years from the completion of the project and certain windows may also service the interest going forward. The timeline for servicing the principal and interest in entirety by the respective institute is determined by the MoE and HEFA after assessing the internal revenue generations of the respective institutes.

The agency has stopped incremental disbursements to institutions under Windows IV and V (which include institutions established after 2014 and miscellaneous institutions not under any of the other windows). ICRA notes that HEFA has formed committees for evaluating its future growth prospects and is planning to expand the list of eligible institutions for extending loans, going forward.

Asset quality strengthened by GoI support and escrow mechanism – HEFA's asset quality is supported by the timely receipt of the GoI grants and the prompt replenishment of the escrow balance by the institutions. The company does not have any NPAs as of date. The interest servicing of the loans is entirely through the 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 – Incorporated in FY2018, HEFA commenced lending in FY2019 and the loan book increased to Rs. 5,648.6 crore in September 2022 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.

Lending spread expected to remain lean – HEFA's lending spreads are expected to remain lean 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 FY2023, the company reported a provisional net profit of Rs. 200.6 crore (Rs. 447.52 crore in FY2022) with a return on managed assets (RoMA) of 5.6% (annualised; 5.5% in FY2022). However, HEFA's profitability would moderate as the leverage increases, given the lean lending spread.

Diversity in funding profile crucial for growth – As on September 2022, the company doesn't have any borrowings from banks. However, given the sizeable disbursement commitments (Rs. 9,805.1 crore as of October 2022) as well as the planned expansion in its borrower base, HEFA would have increased funding requirements going forward. In the past, HEFA had secured funding from a few banks, which has been repaid during the current financial year. 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. 721.8 as on December 30, 2022 with no debt obligations (principal + interest) during January 2023 to June 2023. Collections from advances (inflows) during the abovementioned period are expected to be about Rs. 993 crore.

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. 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 joint venture initiative between the Ministry of Education, the Government of India (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, the company has been constituted as a 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. 200.6 crore (provisional) in H1 FY2023 on a loan book of Rs. 5,648.6 crore (provisional) as of September 2022. Its net worth stood at Rs. 6,779.8 crore (provisional) as of September 2022.

Key financial indicators

Higher Education Financing Agency	FY2021	FY2022	H1 FY2023*
Total income	597.4	589.3	201.2
Profit after tax	441.6	447.5	200.6
Net worth	6,131.8	6,579.3	6,779.8
Loan book	7,855.4	5,138.6	5,648.6
Total managed assets	8,089.4	7,896.3	6,781.7
Return on managed assets	6.0%	5.6%	5.5%
Return on net worth	7.6%	7.0%	6.0%
Gearing (times)	0.3	0.2	0.0
Gross NPA	0%	0%	0%
Net NPA	0%	0%	0%
Net NPA / Net worth	0%	0%	0%
CRAR	76.6%	71.7%	76.3%

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

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 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 09, 2023	Feb 11, 2022	Mar 31, 2021	Dec 27, 2019 Feb 21, 2020
1	Issuer rating	LT	NA	NA	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA-(Stable)
2	Long-term fund based – Term loan	LT	3,500.00	0.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA-(Stable)

LT- Long Term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA
Long-term fund based –Term loan	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 analyzing 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, is 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	**Issuer rating**	NA	NA	NA	NA	[ICRA]AA(Stable)
NA	**Term loan-Unallocated**	NA	NA	NA	3,500.00	[ICRA]AA(Stable)

Source: *Company*

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

Annexure II: 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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