Indian Education Industry- Trends and Outlook

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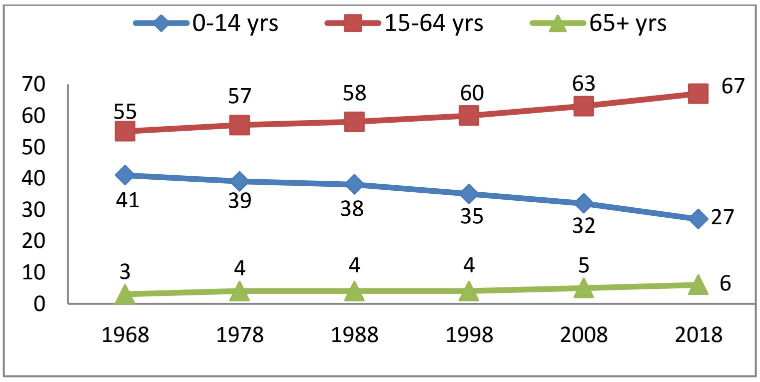
Industry overview

India, with world's second largest population comprises 1.3 bn individuals, which offers immense opportunity for growth of the country's education sector. About 27% of Indian population is in the school going age group of 0-14 years.

Chart 1 depicts the age wise demographics of Indian population. Over the past 50 years, number of individuals lying in age bracket of 15-64 years and 65+ years has risen, while number of individuals lying in age bracket 0-14 years has seen a fall.

Chart 1: Age wise demographics in India over the years (%)



Source: World Bank

Prior to independence, our country had minimal educational institutions - 500 colleges and 2.1 lakh students enrolled in the higher education system. However by the end of FY18, it grew manifold to ~41,000 colleges with ~366 lakhs students enrolled for higher education owing to increase in demand for higher education in semi-urban areas.

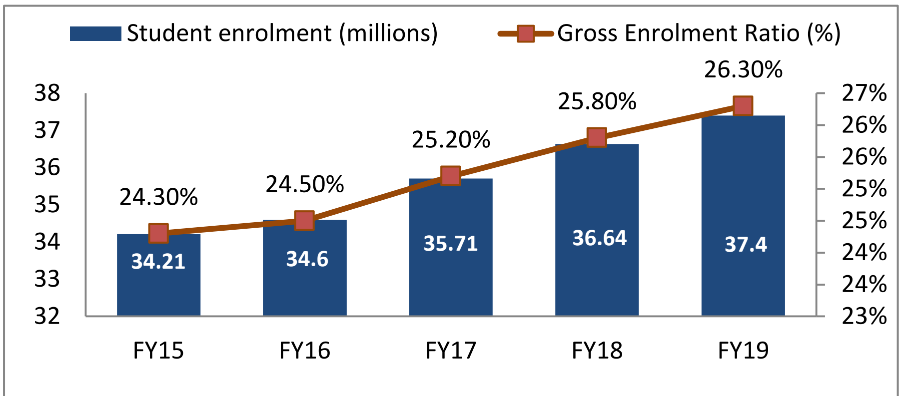
In FY19, the Indian education sector was estimated at ~USD 101 bn, growing 10% over the previous year.

The top three states with maximum number of universities in the country were Rajasthan, Uttar Pradesh and Gujarat with 80, 78 and 62 universities respectively, all of which are degree-awarding institutes (as of FY17).

Gross enrolment ratio

Gross enrolment ratio is the ratio of total enrolment (regardless of age), to the population of the age group that officially corresponds to the level of education shown.

Chart 2: Growth in student enrolment in higher education institutions



Source – All India Higher Education Survey Report – MHRD (FY19)

Over the past 5 years, there is a continuous rise in enrollments across all the segments of education including elementary schools, secondary schools, higher education, distance learning and vocational courses. The growth in large education institutes is much more than small education institutes as the brand name of large institutes are able to attract students, which also makes it difficult for new entrants to enter and sustain. In the higher education segment, the enrolment has grown considerably in last five years, which has increased from 34.21 mn in FY15 to 37.4 mn in FY19. The increase in higher studies is more under SC category which has increased from 16 percent in FY13 to 23% % in FY19. In FY19, the enrollment ratio for the all the investment grade CARE rated entities has been almost 90- 100 %.

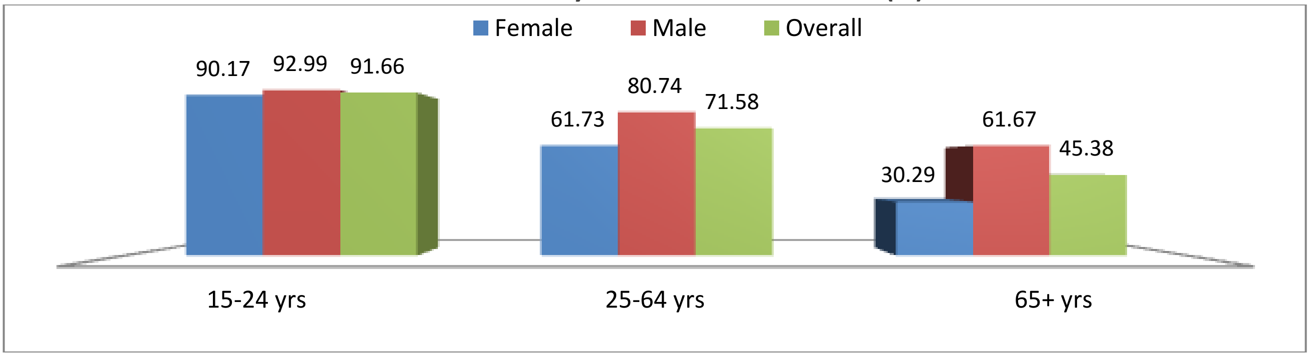
Literacy rates in India

According to the Census 2011 records, the five most literate states in India are Kerala, Lakshadweep, Mizoram, Tripura and Goa and the bottom five being Bihar, Arunachal Pradesh, Rajasthan, Jharkhand, Andhra Pradesh.

Data sourced from UNESCO for CY2018 shows that literacy rate in India is highest amongst the youth, which gradually saw a fall with rise in age (chart 3). Amongst the youth (15-24 years), overall literacy rate was 91.6%, while in the age bracket of 25-64 years literacy rate was lower at 71.5% and for 65+ years overall literacy rates fell to 45.3%. Difference between male and female gender literacy rates is highest (~15%) among individuals aged 65+ years, while amongst the youth, the difference was marginal of ~1%.

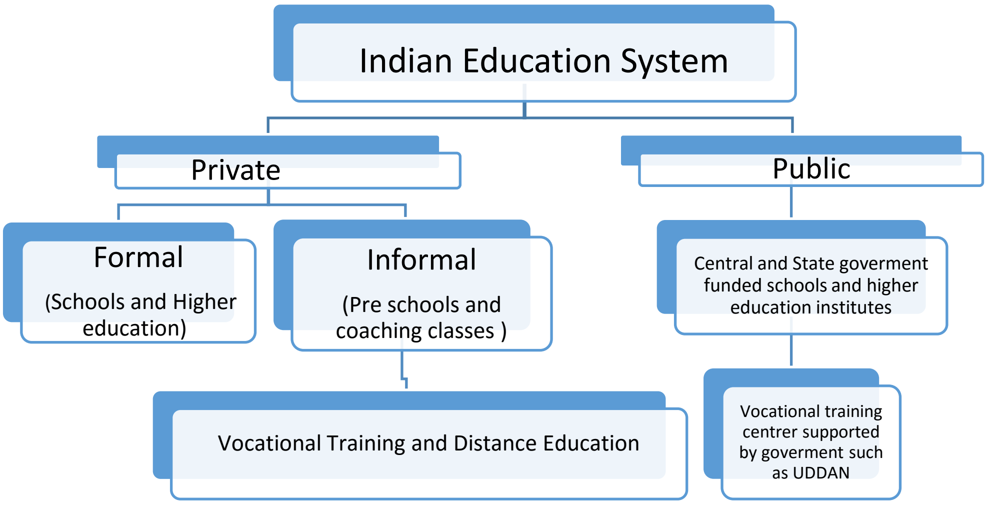
China, with a similar population as ours, had a higher literacy rate than India, in all three age brackets. Amongst the youth, literacy rate was 99.8%, 98.4% for age bracket of 25-64 years and 84.9% for individuals aged 65+ years.

Chart 3: Literacy rates in India in CY2018 (%)



Source: UNESCO

Industry structure



Source: Industry, CARE Ratings

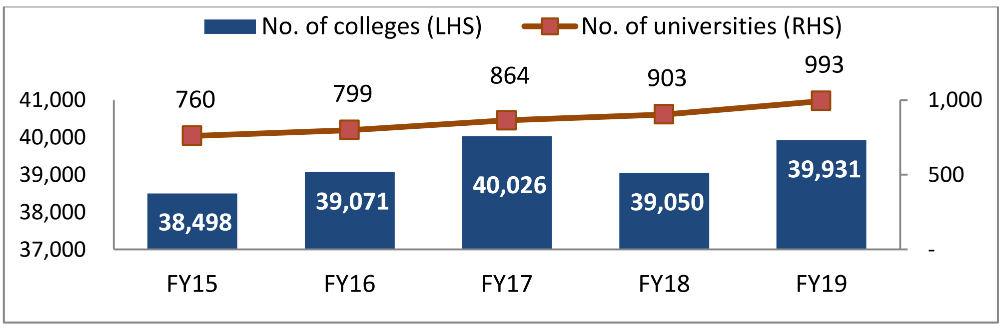
Indian education industry is highly regulated and comes under the purview of both the central and state government that regulate it directly or indirectly through various bodies including University Grants Commission (UGC) and All India Council for Technical Education (AICTE).This industry can be broadly classified into two categories i.e. public sector and private sector which is further divided into two categories namely, formal and informal.

- Private sector – Private sector, which includes formal sector comprises of school education, graduation and post-graduation, while informal sector includes pre-school and coaching classes.
- Public sector - includes government funded schools and higher education institutes. Vocational sector, where additional skills are acquired to compete in business environment. All the categories in education sector have supply –demand gap which provides huge opportunities and advantage for market of this sector. The sector is dominated by central and state government funded institutes however with rise in importance of education in urban and semi –urban areas the private sector has seen growth over last decade especially in K- 12 segment.

Number of colleges and universities

Owing to increase in demand for higher education in semi- urban areas, the number of universities and similar institutes rose 31%, while the number of colleges increased 4% over the past 5 years.

Chart 4: Number of colleges and universities

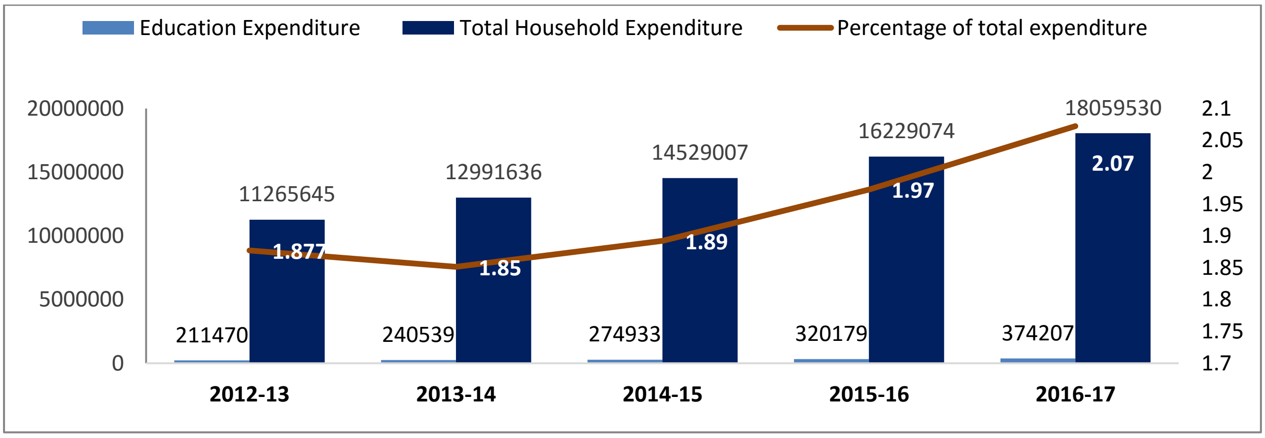


Source – All India Higher Education Survey Report –MHRD (FY19)

Private Final Household Consumption Expenditure on Education in India

The Private Final Household Consumption Expenditure is increasing each year and so is the expenditure on education. The expenditure on education has increased by 77% in FY17 over FY13, but as a percentage of total expenditure it has remained constant between 1.80 – 2.10% even though the cost of education is increasing at much faster rate than inflation but the spending remains at the same level.In our analysis we believe that even though the cost of education is rising but the demand will rise at the same rate due to importance of education and gap between supply and demand.

Chart 5: Private Household Consumption Expenditure on Education at Current prices (In Crore)

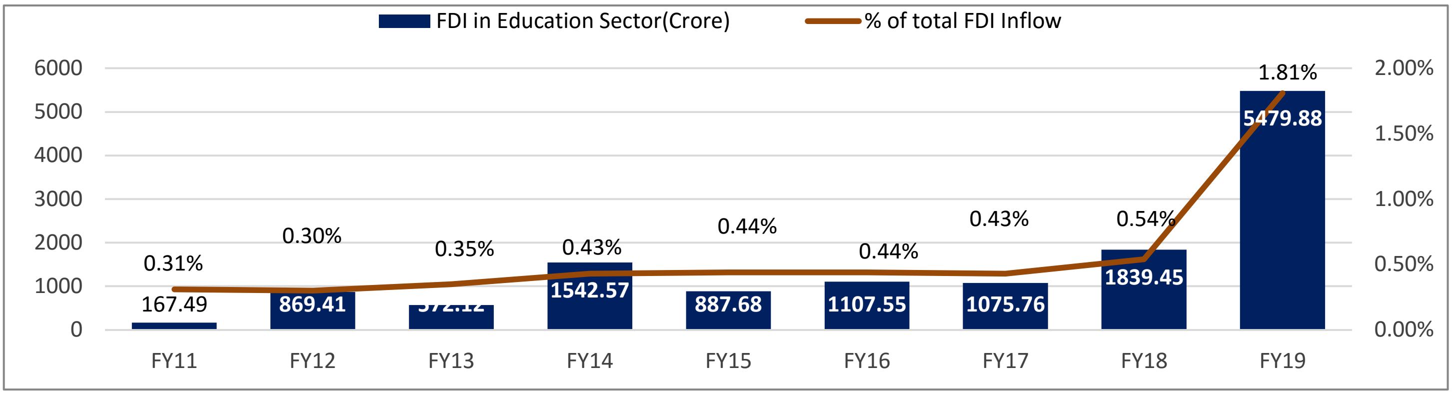


Source – data.gov.in

Foreign Direct Investment

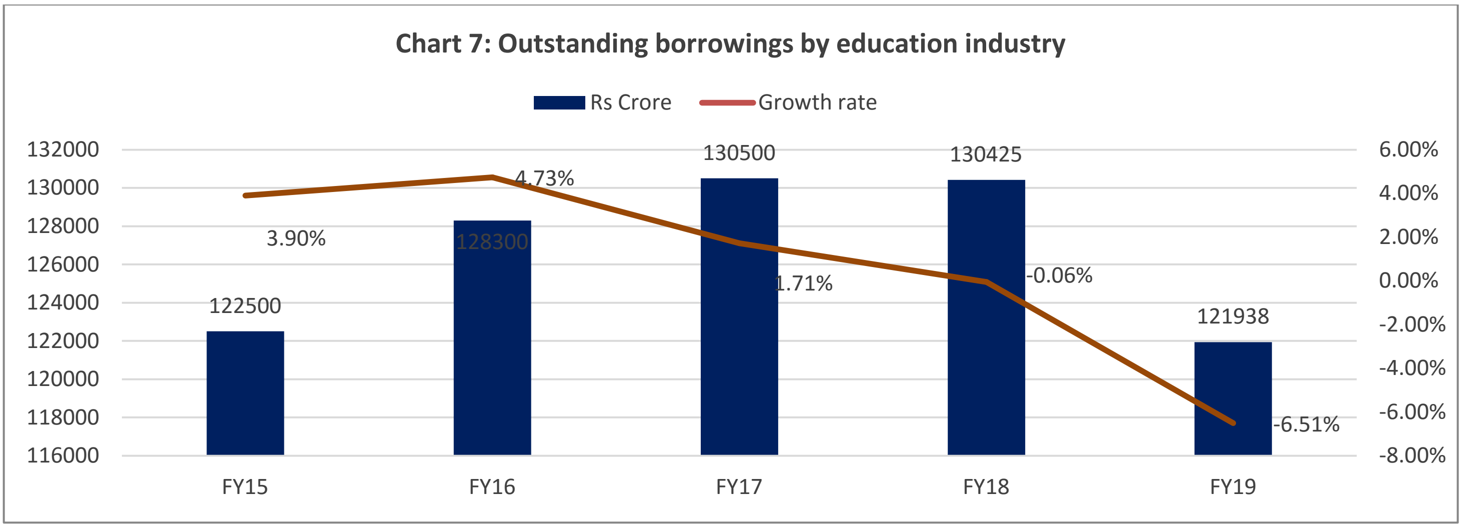
During April 2000 to June 2019, the Indian education sector has attracted Rs. 15,459 crore through the FDI route. The FDI in the education sector in India has increased at a CAGR of 54.65% from Rs.168 crore in 2011 to Rs.5,479 crore in 2019. Further during 3M-FY20, the FDI inflow in education sector is Rs.194 crore. The Government of India (GOI) has allowed100% Foreign Direct Investment (FDI) in the education sector. Under the automatic route but still the foreign inflow in the education sector has stood at 1.81 % during FY19 as the purpose of this sector is not to earn profit but to remain non – profit sector. Despite of allowing 100% FDI in the education sector the investment in this sector and the response from foreign investors has been lassitude. Further, a trust or a society is also not eligible to receive foreign investments under the automatic route. Section 8 company is of a charitable nature and hence would require applying its profits or other income towards the promotion of its objects.

Chart 6: Foreign Direct Investment in Education Sector



Source: DIPP

Negative growth in educational loan segment

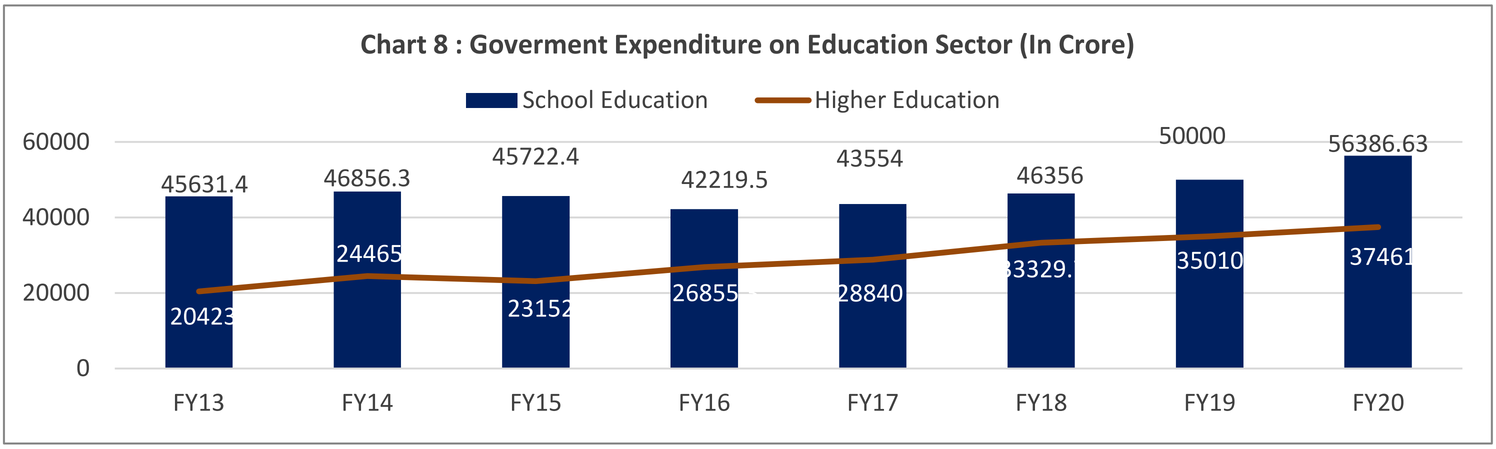


Source: RBI, Note: Outstanding borrowings are a summation of personal loans and priority sector loans to education industry

The education loan portfolio growth has been low despite the opportunities in the educational segment. The growth rate of educational loan has declined to -6.51 per cent in 2019 from 4.73% per cent in 2016. One of the major factor could be higher delinquencies experienced by banks and very few specialized lending institutions in this segment. The decrease in growth rate may adversely affect the education industry. The number of students availing loan facility is decreasing each year however the average ticket size of loans is increasing each year as banks are looking at value game rather than quantity also it is becoming difficult for poor students to avail loan facility without any collateral.

Government Support

In Union Budget 2019, the central government had allocated Rs 56,386 crore to school education and Rs 37,461.01 crore to higher education. Along with increasing the amount spent on education, the budget is also focusing on learning outcome, and monitoring quality. The central government has expressed its intent to improve the quality of outcome in the education and skilling sector with a focus on job creation.



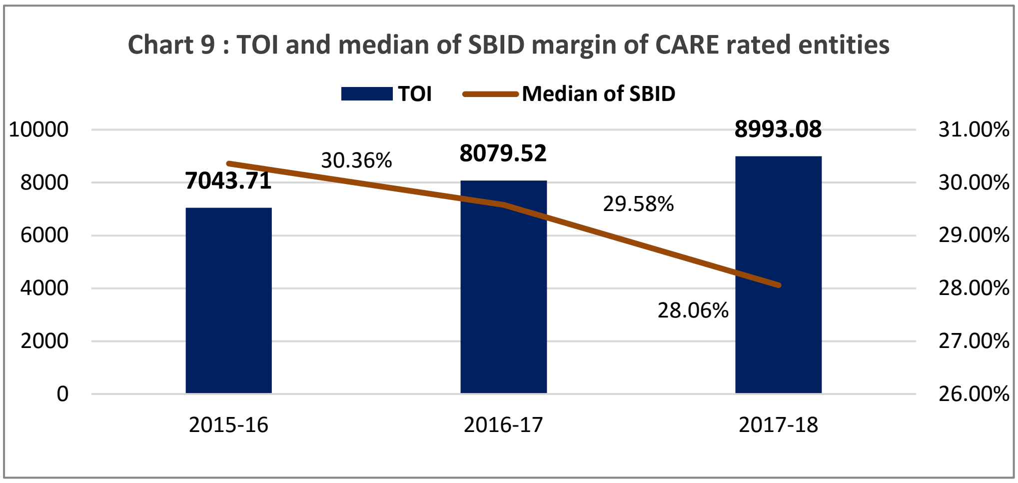
Source: Union budget

Sr No.	Various Scheme and Initiatives	Purpose
1	Samagra Siksha	It is a new scheme proposed in union budget 2018-19 to treat school education holistically to cover classes from nursery to Class 12 with overall development. It is to focus on overall aspect of education from traditional teaching to digital teaching
2	Mid-Day Meal Scheme	The government has launched this scheme to enhance enrollment, retention and attendance with overall improvement in nutritional level among students
3	Infrastructure Development in Minority Institutes (IDMI)	This Scheme is launched with the objective to improve the infrastructure facility in Private /Unaided Minority Schools /Institutes to improve the quality of educations to minority children
4	Saakshar Bharat	This scheme is launched to achieve 80% literacy level at national level by focusing on reducing the gap of literacy between male and female to 10 point by creating social awareness.
5	Pradhan Mantri Gramin Digital Saksharta Abhiyan	It was launched with the aim of providing digital literacy to 60 million rural households in the country by March 2019 and as of January 2018 , more than 10 million candidates has been trained under the scheme
6	National Education Policy	The new Nation Education Policy majorly focuses on quality of Education as well as innovation and research in the sector. In November 2018, the national education policy framework 2018 was launched
7	Prime Minister's Research Fellowship Scheme	The scheme was approved in February 2018 under the union Budget 2017-18 with the aim of improving the quality of research in the country by attracting the best talent and has been approved for a period of seven years beginning from 20018-19 at a cost of Rs 1650 crore
8	Jan Shikshan Sansthan	It is launched to provide vocational training to those people who are non-literate ,neo-literate and school drop outs by identifying the skills
9	Assistance to Voluntary Agencies	It is launched to undertake projects of basic literacy /under Sakshar Bharat /continuing education to support development in adult education.

Source – NITI Aayog and MHRD

Analysis of CARE Rated Entities

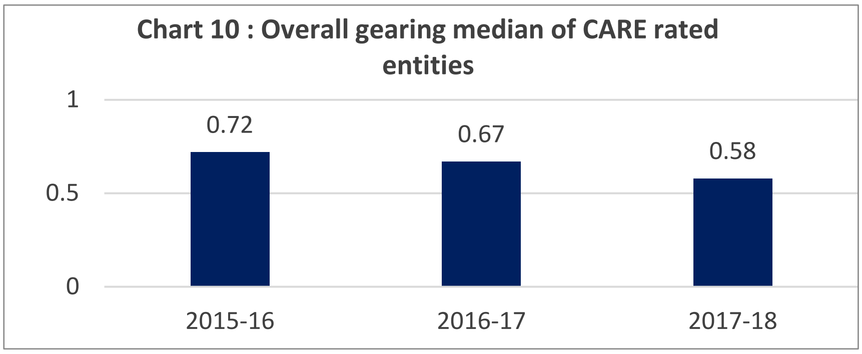
Steady growth in total operating income and healthy SBID margin



In our observation at CARE Rated entities we analyzed that the scale of operation represented by Total operating income (TOI) exhibited healthy and continuous growth trend in last three years ended on FY18 on account of increase in average tuition fee, increase in student intake coupled with high enrolment ratio, introduction of new courses and support from government activities. Both the segment of education sector that is school and higher education has seen a significant growth from FY16 to FY18. The higher education segment requires significant investment in academic and residential infrastructure, hence necessitates institutions to operate at high surplus margin to cover fixed capital cost. Though expenses related to employee/faculty, power etc are fixed in nature, the institution's ability and willingness to quickly adjust its operations at a time of low enrollment ratio and minimum fee hike is critical for the stability of credit profile.

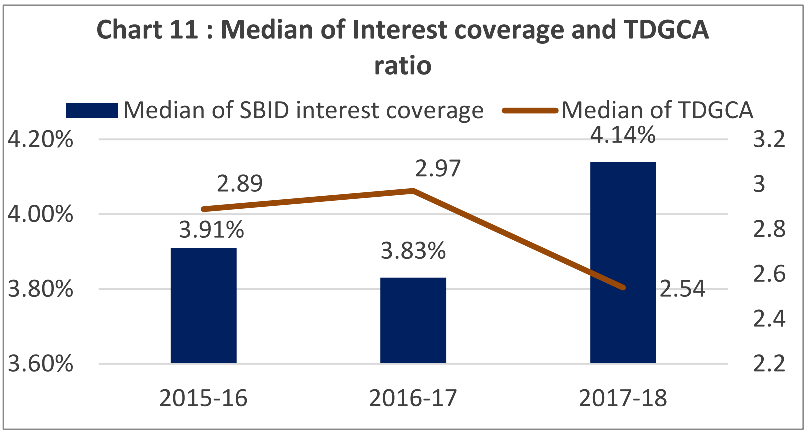
All the education institute face cost pressure, schools were able to maintain the operating margin by increasing tuition fees whereas the higher education institutes maintain the margin by increasing the student intake and increasing the number of courses. The SBID margin of the players in the industry although has deteriorated due to increase in employee cost, maintenance cost, etc. but the margins have remained healthy at above 28%.

Trends in capital structure and debt coverage indicators



The education sector has been continuously engaged in upgrading its facilities in order to comply with requirements of statutory bodies such as All India Council for Technical Education (AICTE), National Assessment and Accreditation Council (NAAC), National Board of accreditation, increase the total student intake, and introduce additional courses for which they have to incur capital expenditure.

In light of the aforementioned ,CARE has observed that the capital expenditure incurred for the said causes is majorly funded through internal accruals and partly through debt resulting in comfortable overall gearing for the last three financial year ended on FY18. However the same has further improved as on March 31, 2018 over March 31, 2017 on account of schedule repayment of term loan and accretion of surplus along with no major capex being under taken during FY18.



During FY18, interest coverage ratio of rated institution /trust/society has improved on account of benefit derived from capex which incurred in past resulted increase in Surplus before interest and Depreciation (SBID).Due to aforementioned situation, SBID interest coverage ratio improved in FY18 over FY17.

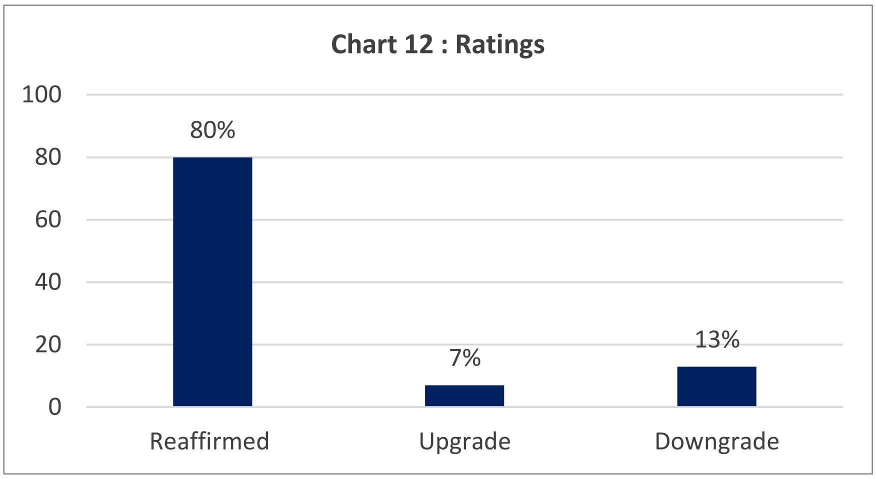
Liquidity

In our analysis we found that liquidity is the key challenge which most of the educational institutes faces. The educational institutes are able to generate profit and healthy margin but delay in receipt of fee has resulted in high collection period. In few states where fee concession scheme is applicable there the collection period has reached to 150- 250 days resulting in stressed liquidity on account of delay in receipt of fee reimbursement. Also, continuous capex for better infrastructure and to increase the intake by using debt loads and limited financial support from promoters has resulted in poor liquidity position.

Key sensitivities

The growth of this sector is directly dependent on support from government in form of policies by encouraging foreign and domestic investment. The industry also suffers from liquidity issue due to high collection period from government thus ability to improve its collection efficiency by recovering the fees reimbursement from the government is also an important factor.

Ratings' Perspective



The CARE ratings has maintained a stable outlook on its rated educational entities for FY18 due to their healthy and continuous stable growth trend in last three financial year ended on FY18 supported by increasing gross enrollment ratios each year, improving surplus margin and satisfactory financial discipline in terms of both debt and liquidity .

In FY18, CARE Ratings has reaffirmed the rating of 80 % educational entities due to their stable growth rate, upgraded 7% of entities and downgraded 13% entities. The reason of downgrades is primarily on account of elongated operating cycle, delay receipt of tuition fee reimbursement by the government to the education societies /entities which led to liquidity pressure and cash flow mismatches.

Challenges

- The regulatory framework of education sector allows higher educational institutions to operate only as not for profit entities. The restriction on running for profit institutes implies that institutions can be established only in three forms trusts, societies and Section 8 companies resulting in lower return on investment.
- Emphasis on offering of online courses to masses will impact financials of those institutions that have relied more on external debt for development of physical infrastructure of schools, colleges and classrooms.
- The higher education sector is suffering by relatively low gross enrollment ratio (GER) and restricted to a limited population
- Limited spending by Government of India on education sector
- Another challenge faced by Indian education sector is capacity utilization as small institutes with weak brand name are not able to utilize the full capacity due to lower enrollment.
- The main reason of low capacity utilization for small institutes and upcoming institutes is their inability to provide necessary physical infrastructure to run the institute.

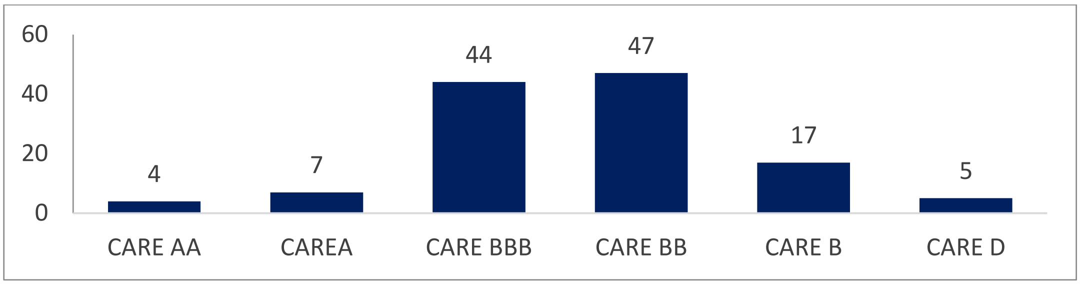
Industry Outlook

With close to one-third of India's population under the age of 15 years, the country creates a huge opportunity size for growth of this industry. The outlook of this sector remains bright in light of growing middle class population with rising population, growing income levels, growing emphasis on girls' education, increasing private spend on education, increase in variety of courses offered by colleges and universities, growing emphasis of government on developing Indian education, etc. However, challenges relating to access to and participation in education, quality of education imparted, governance and management, and financial commitment to education development continue to persist.

Rating Dispersion

CARE's ratings in the education sector fall predominantly in the "BBB" and "BB" categories on account of small scale of operations, moderately leverage capital structure, comfortable debt and interest coverage indicators, diversified revenue stream and stiff competition.

As depicted below, of the total 124 players in education sector rated by CARE as on April 22, 2018, about 44% fall under the 'Investment Grade 'category.



Source – CARE Ratings

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