

## Trends in Indian Education Sector and performance of CARE rated entities

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### Executive Summary

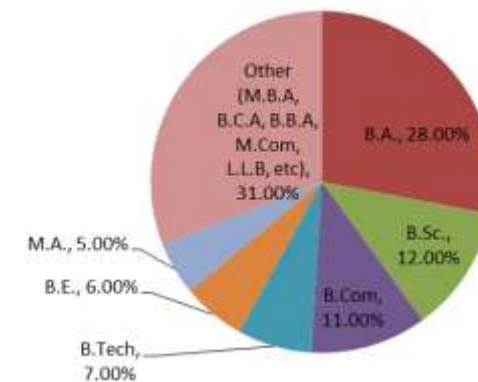
The education sector in India has an advantage of large population of youth and increase in the number of institutions coupled with satisfactory gross enrolment ratio (GER) in higher education resulting into huge opportunity for existing and upcoming institutions. Spending on education, by Indian household, accounts for second highest share of household expense. The focus of Government of India (GOI) for the education sector has led to introduction of various schemes, initiatives and steady growth of spending on sector. Despite the increasing trend of privatization of education sector due to limited government spending, regulatory challenges continue to influence the total operating income, profitability margin, capital structure, etc, of educational institutes in India. The article delineates on various government schemes and initiatives meant to improve quality of outcome, trend of FDI spending on education and rating dispersion of CARE rated educational institutes.

### Overview of key trend in education sector:

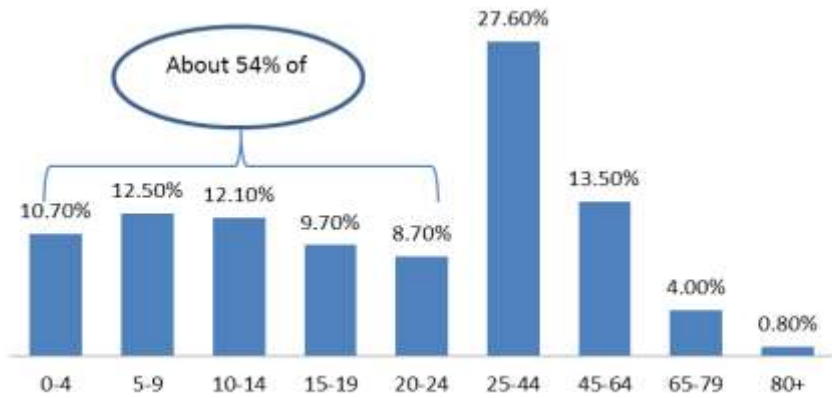
Indian education sector is a highly regulated sector. The education sector in India is in the concurrent list of the constitution and thus comes under the purview of both the central and the state governments. The sector is regulated by the Ministry of Human Resources at the national level, by the education ministries in each state as well as central bodies like University Grants Commission (UGC) and other professional councils like All India Council for Technical Education, etc. India has one of the largest education systems globally.

Higher education in India has witnessed manifold increase in the number of universities and colleges. During 2005-2015, the number of universities increased at a CAGR of 9% and the number of colleges increased at a CAGR of 10%. More than 1,800 colleges have been added in the year 2014-15 alone. Further Gross Enrolment ratio (GER) in the year 2015 is satisfactory at about 67%.

### Course wise enrolment at Higher education level



**Age wise dispersion of Indian Population**

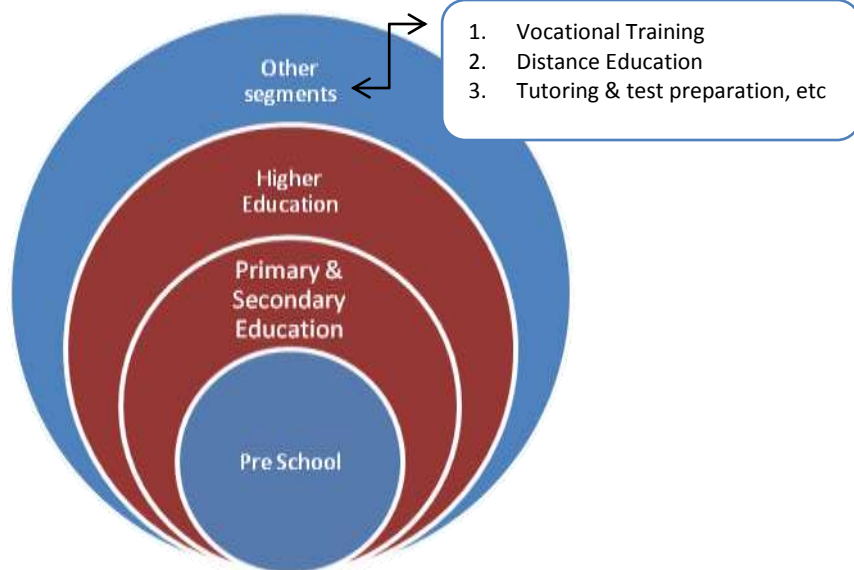


Source: Registrar General & Census Commissioner

Increasing income levels, rapid urbanization coupled with increasing awareness about importance of quality education as well as various Government schemes and initiatives have resulted in the growth of the Indian Educational sector. The higher education enrolment increased at a CAGR of 10.17% during 2005-2015 with about 19 lakh students added in last year alone. The chart on left shows the age-wise dispersion of Indian population.

About 54% of the population is on or below 24 years of age, which falls under education seeking category and provides opportunity for growth of education sector.

**Regulatory framework in India**



Indian constitution places 'Education' as a concurrent responsibility of both the Center and the State. Center co-ordinates and determines standards in higher and technical education, while school education is the responsibility of the state. The education sector is segmented into regulated and unregulated. Institution which is registered in the form of a non-profit entity, ie, either as a charitable trust or a society or a section 8 company are also regulated sector.

The education sector comprises of pre-school, primary, higher secondary and higher education segments. Unlike pre-schools, primary & secondary education is subject to regulatory control, and educational institution needs to comply with central as well as state-specific regulations. Primary & Secondary education in India has to affiliate to key boards/authorities which include Central Board of Secondary Education (CBSE), Council for the Indian School Certificate Examinations (CISCE), International Baccalaureate from Geneva, and respective State Boards.

The higher education in India can be classified into technical and non-technical education. The key policy-making agencies for higher education are (1) Ministry of Human Resource Development which lays down the National Policy on Education (2) Central Advisory Board of Education (CABE) who coordinates and cooperates the Union and the States in the field of education and (3) State Councils for Higher Education which coordinates the roles of Government, Universities and apex regulatory agencies in higher education within the state. The regulatory framework of higher education has been shown below.



**University Grants Commission (UGC)**

- UGC is a statutory body set up by the Indian Union government in accordance to the UGC Act 1956 under Ministry of Human Resource Development, and is charged/entrusted with coordination, determination and maintenance of standards of higher education.
- Providing grants to eligible universities and colleges

*• Providing grants to central and state governments for development of higher education*



**All India Council for Technical Education (AICTE)**

- Responsible for maintenance of standards of technical education which currently includes education research and training in Engineering, Architecture, Town planning, Management, Pharmacy, Hotel Management & catering Technology, Applied arts and crafts



**Professional councils of India**

The different professional councils of India includes the followings

- Pharmacy council of India (PCI)
- Medical Council of India (MCI)
- Central Council for Indian Medicines (CCIM)
- Dental Council of India (DCI)
- India Nursing Council (INC)
- National Council for Teacher Education (NCTE)
- Bar Council of India (BCI)
- Indian Council for Architecture Research (ICAR)
- Central Council of Indian Medicine, etc.

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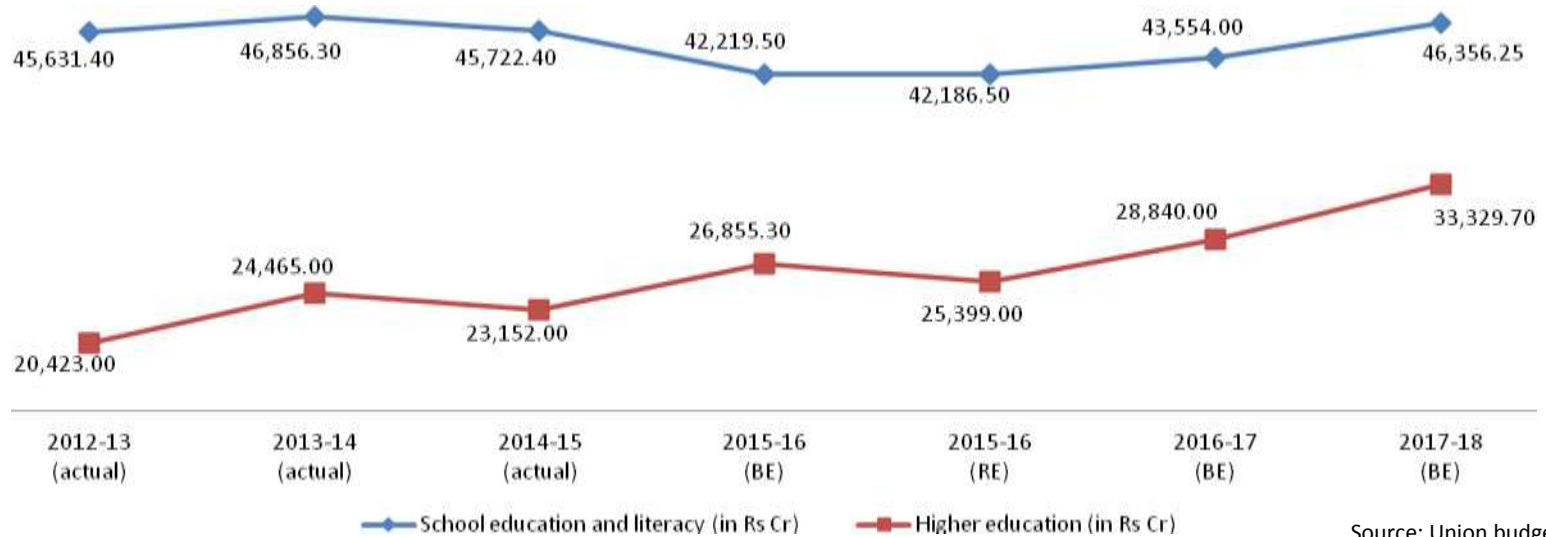
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**Government support:**

In union budget 2017, the central government has allocated Rs.46,356.25 crore to school education and literacy and Rs.33,329.70 crore to higher education.



Source: Union budget, MHRD

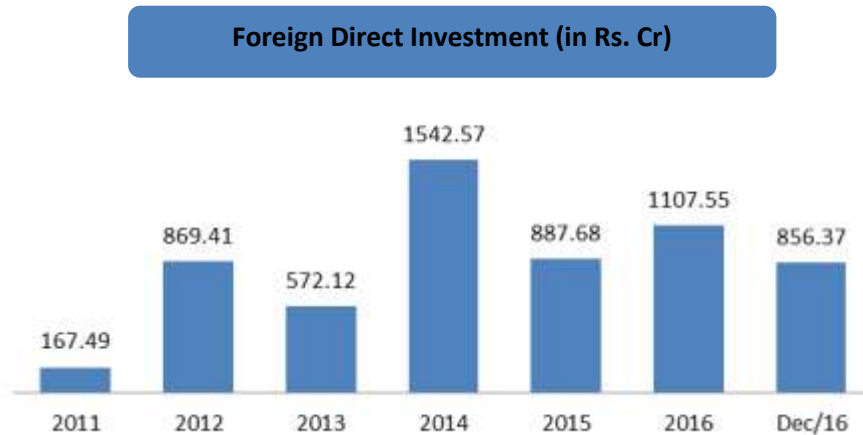
Along with increasing the amount spent on education, the budget also focuses on the learning outcome, and monitoring quality. The central government has expressed its intent to improve the quality of outcome in the education and skilling sector with a focus on job creation. Some of important measures taken in this direction include:

Sr No	Various Scheme and Initiatives	Purpose
1	Sarva Shiksha Abhiyan	To provide useful and elementary education for all children in the 6-14 age group, to realize the importance of early childhood care and education at the age of 6-14 years and to bridge social, regional and gender gaps with the active participation of community in the management of schools
2	National Institutional Ranking Framework (NIRF)	Evaluates each higher education institution on 5 broad parameters namely teaching/learning resources, research, graduation outcomes, outreach/inclusive nature and the public perception
3	Pradhan Mantri Kaushal Vikas Yojana	To enable and mobilize a large number of Indian youth to take up outcome based skill training and become employable and earn their livelihood
4	Study Webs of Active-Learning for Young Aspiring Minds (SWAYAM)	It is a Web portal where Massive Open On-line Courses (MOOCs) will be available on all kinds of subjects. It is Indian electronic e-education platform which intended to address the needs of school level 9-12 to Under Graduate and Post Graduate students covering all disciplines. An access to SWAYAM education portal online with over 1,500 online courses and its tie up with DTH channels will provide education to masses instead of relying on physical infrastructure of schools and classrooms.
5	Global Initiative of Academic Networks (GIAN)	Program seeks to invite distinguished academicians, entrepreneurs, scientists, experts from premier institutions across the world, to teach in higher

Sr No	Various Scheme and Initiatives	Purpose
	Programme	educational institutions in India. Under this program, 337 courses have been approved from over 160 institutions in the world.
6	Unnat Bharat Abhiyaan	Under Unnat Bharat Abhiyaan, all technical and higher education institutions will adopt five villages each; identify technology gaps and prepare plans for innovations that could substantially increase the skills, incomes and growth in the rural areas.
7	Pandit Madan Mohan Malaviya National Mission on Teachers and Teaching	Focusing on the preparation of teachers and their working condition in classrooms, schools and colleges, as also their continuous professional development, ensuring that best talent in the country are made available to shape the future generations.
8	IMPRINT (Impacting Research Innovation & Technology)	This initiative ensures that the higher educational institutions conduct research that is socially relevant and thereby contribute to the economic growth of the society as a whole. Under this, 10 domains have been identified which could substantially impact the living standards of the rural areas: (i) health care technology, (ii) energy security, (iii) rural urban housing design, (iv) Nano technology, (v) water/river system, (vi) advanced materials, (vii) computer science and ICT, (viii) manufacturing technology, (ix) advanced security and (x) environment/climate change.

**Trends in Foreign Direct Investment:**

During April 2000 to December 2016, the Indian education sector has attracted Rs.7,727.14 crore through Foreign Direct Investment (FDI). The FDI in the education sector in India has increased at a CAGR of 45.91% from Rs.167.49 crore in 2011 to Rs.1,107.55 crore in 2016. Furthermore, during 9MFY17, the FDI inflow in the education sector is Rs.856.37 crore.



Source: Department of Industrial Policy and Promotion

The Government of India (GOI) has allowed 100% Foreign Direct Investment (FDI) in the education sector under the automatic route. Furthermore, GOI also allowed for 100% FDI in the construction development projects which would also include in educational institutions through the automatic route. Despite allowing 100% FDI in the education sector, the investment in this sector and the response from foreign investors has been lassitude. Furthermore, a trust or a society is also not eligible to receive foreign investments under the automatic route. Section 8 company would require applying its profits or other income towards the promotion of its objects.

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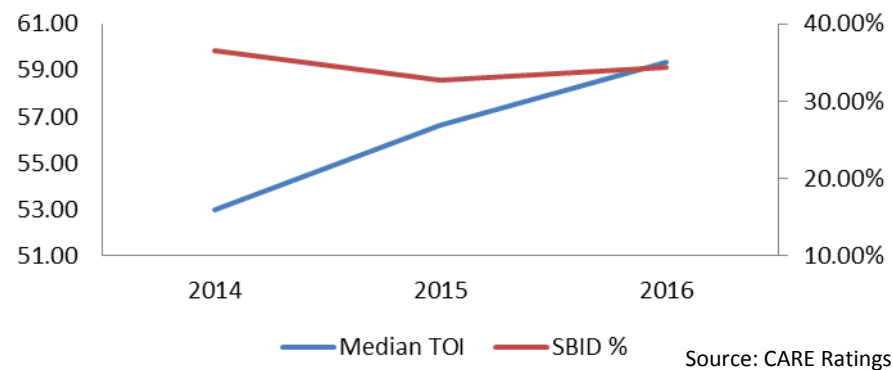
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### Performance of key rating factors of CARE Rated entities:

#### **Steady growth in Total Operating Income (TOI) and healthy Surplus Before Interest and Depreciation (SBID) margin**

The revenue diversity (tuition fee, hostel fee, transport fee, mess fee, etc) and number of courses offered are key parameters while assessing credit profile. The education sector of India has seen decent growth which can be attributed to introduction of new courses, increase in average tuition fee, increase in student intake coupled with high enrolment ratio. Furthermore, large institutions having strong brand names are able to attract more students compared with small players. CARE has observed a wide spectrum of courses which has helped players in addressing wider students market with high enrolments across most of the courses thus leading to steady growth in the total operating income (TOI).

#### Median of TOI (LHS in Rs Cr) and SBID% (RHS in %) of CARE rated entities



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 enrolment ratio and minimum fee hike is critical for the stability of credit profile. 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 30%.

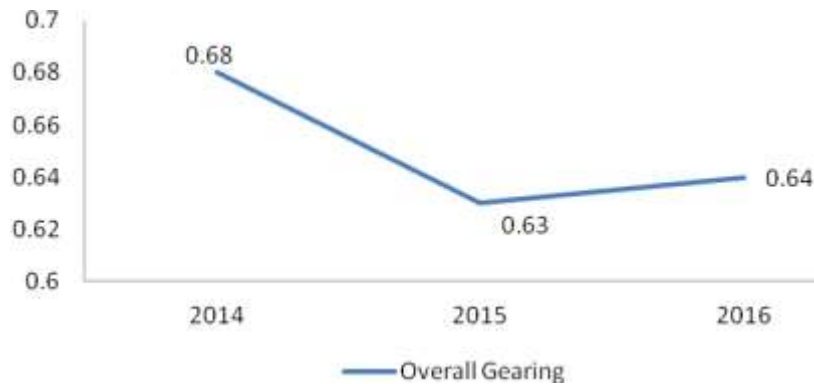
#### **Trends in capital structure and debt coverage indicators**

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.

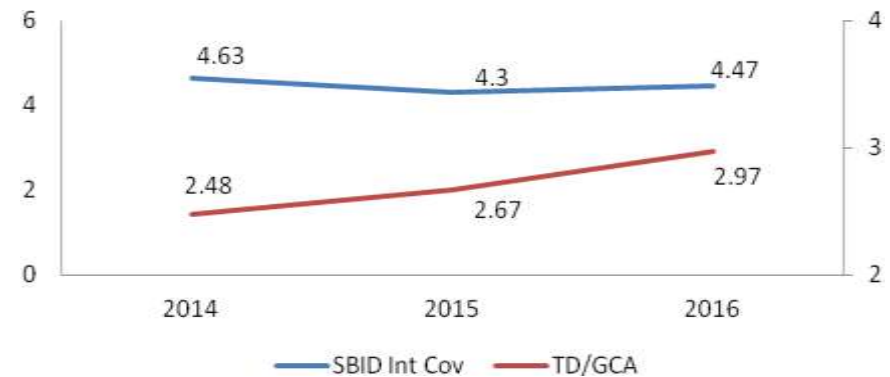
In light of the aforementioned, CARE has observed that the capital expenditure incurred for the said causes is majorly funded through internal accruals and partly through debt resulting in moderately leveraged overall gearing during the financial year closing dated FY14 and FY15 (refers to the period April 1 to March 31). However, the same has improved as on March 31, 2016, over March 31, 2015, on account of schedule repayment of term loan and accretion of surplus along with no major capex being under taken during FY16.

During FY15, interest expense of rated institution/trust/society has increased in line with increase in term loan to fund capex in order to comply with requirement of statutory bodies. However, during FY16, institutions started deriving benefit 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 FY16 over FY15.

**Median of Overall Gearing of CARE rated entities**



**Median of SBID Interest coverage (LHS) and TD/GCA (in LHS) of CARE rated entities**



**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.
- The education sector is struggling to maintain profitability margins as government pricing caps prevent universities from adjusting course fees.
- 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 enrolment ratio (GER) and restricted to a limited population.
- Maintaining standard of education in more than 35,000 colleges, offering training programs to teachers in order to improve quality of education and to change course curriculum in line with industry trend is a big challenge.

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**Outlook**

The long-term outlook of education sector in India is favorable on expectation of increasing population, increase in per capita consumption, high enrolment ratio, offering of various courses, Government support in terms of Fee Reimbursement Scheme, flexibility in curriculum, and innovation fund for secondary education in union budget which would spur the sector’s prospects.

**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 134 players in education sector rated by CARE as on April 20, 2017, about 46% fall under the ‘Investment Grade’ category.

