Rating Criteria for Colleges and Universities

Sector-Specific Criteria

This criteria report updates and replaces the previous version, dated 11 September 2015.

Sector-Specific Criteria: This criteria report incorporates and expands upon the Master Criteria Report Revenue-Supported Rating Criteria, 6 December 2018 (see Related Research), and Non-Profit Institutions Rating Criteria, 6 December 2018, with a focus on colleges and universities (institutions). It identifies rating factors that are considered by India Ratings and Research (Ind-Ra) when assigning ratings to a particular entity or debt instrument within the scope of the master criteria.

Individual Analysis: Not all rating factors in this report may apply to each individual rating or rating action. Each specific Rating Action Commentary (RAC) or rating report will discuss the factors most relevant to the individual rating action.

Legal Status and Funding: Although institutions are generally considered autonomous, this is more related to academic matters than financial. Financial flow from central and state governments to non-governmental institutions is limited. Although both government and non-government institutions are tightly regulated in terms of fee and course accreditation, government institutes generally receive fund flows from the government. Ind-Ra may decide to apply its public sector entities criteria to rate government institutes.

Student Demand: For the vast majority of institutions their ability to meet financial obligations hinges on student demand for courses offered. Although institutions vary by ownership type, operating scope, and educational focus, the vast majority of revenue collected by institutions is either generated directly by enrolment via tuition and fees or indirectly through government funding and regulation.

Financial Performance: Solid financial performance usually correlates to higher rating levels, as a rating reflects the institution's ability to make full and timely payments of principal and interest. Analysis focuses on the audited balance sheet and the audited income statement. Ind-Ra views favourably institutions that consistently generate positive operating results. Nevertheless, high reliance on government funding is considered positive for colleges because of their predictability.

Investments and Endowment: In analysing a college or institution's resource base, Ind-Ra examines the magnitude of financial assets and the liquidity of these holdings. Although endowment or fundraising is not yet institutionalised in India, it is gaining importance as an additional source of revenue.

Management: Due to the abundance of external pressures and internal organisational issues facing universities, competent day-to-day management is critical to sound operations. Management's decision-making strategy and ability to control risks, costs and anticipate changes are integral considerations in Ind-Ra rating analysis.

Not-for-Profit: Institutions covered by this sector-specific criteria report include non-profit public and private colleges and universities. For criteria related to tuition-supported, private primary, or secondary schools, see Ind-Ra Research on "School Rating Criteria", 6 December 2018.

Related Research

Revenue-Supported Rating Criteria (December 2018)

Non-Profit Institutions Rating Criteria (December 2018)

Analysts

Divya Shrivastava
+91 44 4340 1705
divya.shrivastava@indiaratings.co.in

Sunil Kumar Sinha
+91 11 4356 7255
sunil.sinha@indiaratings.co.in

Variations from Criteria

Ind-Ra's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on an instrument-by-instrument or an issuer-by-issuer basis, and full disclosure via RAC strengthens Ind-Ra's rating process, while assisting market participants in understanding the analysis used in the ratings.

A rating committee may adjust the application of criteria to reflect the risks of a specific instrument or an entity. Such adjustments are called variations. All variations will be disclosed in respective RACs and will include their impact on ratings, where appropriate.

A variation can be approved by a ratings committee, where risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to a particular instrument or an entity.

Operating Effectiveness

Operating Environment of Institutions

For the vast majority of institutions, their ability to meet financial obligations hinges on student demand for courses offered. Although institutions vary by ownership type (public versus private), operating scope (regional versus national), and educational focus (engineering versus management), the vast majority of revenue collected by institutions is either generated directly by enrolment (tuition and fees) or indirectly related to it (government funding).

Consequently, to assess the effectiveness of an institution's business strategy, Ind-Ra will review a college or institution's historical enrolment patterns, marketing and pricing strategies, and admissions process. Ind-Ra views favourably an institution's ability to demonstrate stable student headcount over a full business cycle and cultivate and maintain a robust pipeline of prospective students for successive incoming classes.

Although tuition and fee revenue and government funding are key credit drivers for most private and public institutions, respectively, fundraising and investment income also play an important role. The purpose of fundraising may be to support operations, fund capital projects, or increase the size of financial assets invested over the long term, including endowment. In most years, the benefit of a larger pool of invested funds is greater investment income. Ind-Ra regards favourably a history of successful fundraising and an increasing endowment, as both provide a diversified source of revenue for the institution.

Another important factor is the geographical location of the institution, the proximity of competing and similar institutions and the socioeconomic profile of the main catchment area. Institutions located at major cities are likely to receive more applicants and recruiters than those located at non-metro location. These factors give an indication of potential flexibility to raise tuition fees in light of the students' financial position and competition from nearby institutions.

Applications, Acceptance and Enrolments

Figure 1
Attributes Box No. 1

Stronger attributes	Consistently high enrolment rates (number of enrolments divided by the total accepted students), indicative of the institution's first choice status among prospective students, and highly competitive admissions process, which provides an institution with flexibility to shape the profile of incoming classes
Midrange attributes	Stable enrolment rates, which may be high or low, depending upon market dynamics; admissions process is somewhat competitive, although acceptance rates tend to be fairly high, limiting enrolment flexibility.
Weaker attributes	Variable enrolment rates, which are usually low; non-competitive admissions process, with generally no ability to shape the profile of an incoming class; heavy tuition discounting to attract students is often a necessity.

Source: Ind-Ra

When analysing enrolment and, in particular, to determine enrolment trends, Ind-Ra reviews five years of enrolment data, both by headcount and by the number of full-time equivalent (FTE) students. The agency considers growing or stable headcount enrolment positively. A one-year decline in enrolment should be explained by the institution's management, but Ind-Ra does not consider it the start of a trend. Significant enrolment volatility indicates a higher risk. Smaller institutions are generally considered more vulnerable as a smaller absolute change can be more impactful.

Although headcount gives an indication of the overall demand for the institution, the level of FTEs indicates shifts between full-time and part-time students. Historically, a shift to more part-time students would have signalled less annual revenue for the institution; however, with the advent of the internet and the spread of life-long learning, many students are pursing part-time college courses. As a result, an institution's administration must always be aware of the needs of its students and proactively change course offerings and formats in response. When analysing enrolment data, Ind-Ra is careful to review the institution's particular mission, its dependence on each component of enrolment, and its strategic plan for maintaining enrolment in the long term.

The trend in the number of students applying to an institution is an indicator of student demand. Acceptance rates (the number of students accepted into a programme or institution, divided by the number of students submitting applications for entrance into the programme or institution) demonstrate an institution's ability to control future enrolment. Institutions that accept 75% or more of the applications have less flexibility should they suffer a decline in applications. While acceptance rates are important, Ind-Ra observes that in education streams where students are allocated colleges by state regulator (mainly common to engineering courses), high acceptance rate is not a credit negative factor.

Enrolment rates or student yield (the number of students who choose to enrol in a programme divided by the number of students accepted into a programme) is indicative of the institution's relative position among its competitors. Comparative enrolment rates are most informative when used to compare institutions with similar degrees, programmes, student quality and markets. Comparisons among institutions serving different needs or markets are not appropriate. Private universities do not have a cap on the number of students they can enrol; hence, capacity utilisation is a redundant indicator for private universities. Capacity utilisation of private universities is calculated on the basis of capacity created by private universities.

Student Quality Indicators

Figure 2
Attributes Box No. 2

Stronger attributes	Consistent track record of superior student academic outcomes that enhances demand and pricing flexibility and better positions an institution to develop non-student related funding streams, such as research and fundraising.
Midrange attributes	Academic outcomes tend to be in line with or periodically better than competitors; a moderate degree of pricing and admissions flexibility exists, influenced by trends in student achievement; ability to leverage student achievement in diversifying revenue streams is more limited.
Weaker attributes	Quality indicators tends to lag competitors, negatively impacting recruitment and retention efforts; limited pricing and admissions flexibility exists necessitating careful, active management of enrolment and student demand; little, if any, opportunity to diversify revenue base exists.

Source: Ind-Ra

Typical measures used to reflect the academic quality of incoming students include standardised tests or entry qualification requirements. Institutions with high student-quality indicators are in a better position to adjust admission levels during a period of declining applications without materially affecting enrolment. If an institution's student quality indicators are favourable compared with those of competitors, there is room to relax admission standards, boosting enrolment, while maintaining high student quality.

In addition to comparing the student indicators to the institution's competitors, Ind-Ra compares these indicators to the national average. Ind-Ra usually views favourably an average student enrolment qualification requirement above the national average because it provides flexibility for admissions. Ind-Ra places less emphasis on these indicators in its analysis of universities that accommodate students who have not historically performed well or where entry requirements are below the average. Instead the agency focuses on the institution's mission and its success in achieving its recruitment goals and retaining students for the full course. The quality of placements is an important parameter while assessing the credit profile of an institute, as it serves as a key indicator of the institution's acceptance, enrolment rate and demand.

Tuition Fees

Figure 3
Attributes Box No. 3

Stronger attributes	Consistent, annual growth in net tuition revenue; internal resources are readily available to meet the institutionally funded financial aid budget
Midrange attributes	Stable to slightly upward trending growth in net tuition revenue; institutional resources could be pressured if an increase in financial aid levels is warranted
Weaker attributes	Net tuition revenue is stagnant to in decline; institutional resources are generally in sufficient to meet any increase in the financial aid budget

Source: Ind-Ra

Tuition levels are a significant factor for students and parents choosing an institution. Competitiveness is most effectively measured through a comparison of tuition fees among peer institutions. The proportion of foreign students to total students is also important, as foreign students usually pay the full unsubsidised fees. Their numbers may, however, be more volatile.

The agency analyses tuition trends for an individual institution net of internally funded student aid. This information can determine to what extent the institution is self-funding tuition. Internally funded student aid may enable an institution to be more tuition-competitive, but management must seek a mix that enables it to maintain or improve financial operations while offering good enough tuition to sustain enrolment levels.

Public Funding and Legal Status

Figure 4

Attributes Box No. 4

Stronger attributes	Formula-driven government funding with an element of inflation and student/subject growth index; debt authorisation requirements for borrowing
Midrange attributes	Formula-driven funding but with a declining trend; no debt authorisation requirements, with financial autonomy delegated entirely to the institution
Weaker attributes	Volatile government funding with low levels of predictability and weak control

Source: Ind-Ra

The stability of financial assistance from the public sector, either from the central or state governments, plays a major role in the financial performance of public institutions. This financial assistance can take the form of either student grants, payment of tuition fees or research study support. Government funding can also be linked to a certain level of research output. Therefore, institutions that are research-intensive can benefit from additional government financial support. However, Ind-Ra considers public funding in the context of other factors, including the agency's assessment of the institution's enrolment level and the type of subjects taught.

In assessing the importance of government financial support, Ind-Ra looks at the mechanism used to allocate funding, its predictability over time, its proportion to total revenue and the checks and balances of the granting institution. A strong regulatory environment, with regard to allocation of public funds as well as strong financial control, reporting and accountability, would be considered positive rating factors by Ind-Ra.

Although institutions are generally considered autonomous, this is more relevant to academic matters than financial ones. Financial flows from the central and state governments to non-governmental institutions are limited, while to non-governmental institutions are tightly regulated in terms of fee, student intake and course accreditation. Financial flows could also apply if an institution has a special legal status that would indicate that its rating would be credit-linked to that of its sponsor. Alternatively, if the link is not so clear, but the level of public funding is significant, Ind-Ra may decide to use a bottom-up rating approach, starting with the standalone assessment of the institution and then enhancing the rating by up to three notches, as set out in its Rating of Public Sector Entities criteria, in view of its assessment of support.

Campus Life and Institution's Facilities

As the cost of attending an institution is a significant factor determining choices, students and parents invest a substantial amount of time in researching and visiting campuses. In addition to the institution's reputation, students and parents consider such factors as the aesthetic appearance of the campus and the availability of quality student facilities. Ind-Ra assesses the institution's response to these needs by discussing with management the short and long-term plans for the campus.

The agency carries out a review of the institution's longer-term plans for additional buildings and major repairs, and strategic plans for the future, to assess management's readiness to allocate resources for these purposes. Deferral of maintenance expenditure to balance an operating budget is a concern.

For institutions that provide campus housing, not only must current housing be properly maintained, but new or renovated housing must be comparable to off-campus housing. Overall, Ind-Ra believes that universities with management that regularly reviews the need for change, in terms of both education and quality of campus life, are better positioned to manage enrolment and have more flexibility to adjust to change.

Fundraising

Figure 5

Attributes Box No. 5

Stronger attributes	Long-standing, fund-raising culture, supported by a mature, well-developed process to effectively solicit donor contributions; annual giving tends to be robust, punctuated periodically by comprehensive capital campaigns.
Midrange attributes	Established fund-raising culture, supported by basic infrastructure needed to solicit donor contributions; annual fund giving tends to dominate, with only a few, narrowly focussed campaigns to support specific initiatives
Weaker attributes	Lacklustre fund-raising culture, highlighted by a spotty track record of development activities; generally no infrastructure in place to support effective fundraising, with most donations solicited on an ad-hoc basis.

Source: Ind-Ra

Institutional development, commonly referred to as fundraising, provides an important resource for many institutions. Gifts to an institution come from a variety of sources, including alumni, parents, foundations, and corporations, and are either made unrestricted or are restricted to a specific purpose or initiative. Although a fund-raising culture takes time to develop, many institutions initially cultivate strong annual fund giving, building off this base to launch comprehensive capital campaigns, which can cover a host of institutional priorities.

Donor Cultivation Not Short-Term Process

While fundraising is not common in India and may take time to develop, many institutions initially focus on increasing annual fund participation among alumni and parent groups, and later building on this base to launch comprehensive capital campaigns, which generally target a host of institutional priorities. In assessing a private primary or a secondary school's fundraising prowess, Ind-Ra reviews the track record of development activities in the context of institutional mission, operating environment and established fundraising culture.

Financial Profile

Financial metrics contribute significantly to rating determinations. With inputs derived from audited financial statements and other supporting financial documents, Ind-Ra calculates and evaluates quantitative assessments of revenue diversity, operating performance, balance sheet resources, and debt burden, and historical trends of such measures.

Expectations for future financial performance and, ultimately, the credit rating are influenced by assessment of those factors. As long as a borrower's underlying strategic position remains sound, a certain amount of variability in financial performance should not affect the rating.

Financial Performance

Solid financial performance generally correlates to higher rating levels, as a rating reflects the institution's ability to make full and timely payments of principal and interest. Ind-Ra analyses trends based on five years of historical financial data, and assesses the sustainability of current results. Analysis focuses on the audited balance sheet and the audited income statement. Ind-Ra views favourably institutions that consistently generate positive operating results.

Income Statement

Ind-Ra analyses both the revenue and expense sections of the income statement to determine concentration of revenue and flexibility of expenses. Institutions deriving revenue from a wide variety of sources are less susceptible to fluctuations resulting from funding reductions or changes in demand for a particular programme. Common revenue sources that provide diversification for institution include tuition fees, research grants, patents and licenses, investment income, auxiliary operations such as conferences, and private donations. For institutions with a significant amount of research grant revenue and, in particular, for public institutions, Ind-Ra reviews historical funding stability.

Significant changes in revenue or expenses from one year to another should be explained by management. An ability to generate revenue above expenditure annually is essential for maintaining or improving an institution's long-term financial position and for providing adequate debt-service coverage.

Revenue Diversity

Institutions have varying degrees of revenue diversity. For private institutions, student-generated revenue (e.g. tuition and auxiliary receipts) are the primary funding source, often representing up to 90% of an institution's revenue. For public institutions, significant operating support is often provided by the government in the form of annual transfers, which can be non-earmarked or earmarked, for example to pay for the salaries of certain teaching personnel. Some public institutions receive capital transfers to fund certain capital projects such as academic and research facilities. In light of the importance of this funding for many public institutions, Ind-Ra considers the trend and likely direction of government funding for both operations and capital as part of its analysis.

Generally, the higher the funding from the central or state government the better the credit rating as long as this funding is predictable, formula driven and has a link to student enrolment and subjects taught.

Barring few Indian states, government funding may be insignificant for private institutions. In such cases, the more diverse an institution's sources of revenue, which may include revenue derived from fundraising, and investment income, the higher its credit rating. This stems principally from the increased financial flexibility afforded by the presence of multiple revenue sources that are often uncorrelated. Sources of diversification often have their own associated risks, and Ind-Ra considers these in the rating process. Although revenue concentration increases an institution's vulnerability, management's ability to closely manage the drivers of that key revenue stream.

In many Indian states, governments have established caps or ceilings on student fees and frequency of fee revisions, which limits revenue flexibility for those institutions that are at the maximum level. Ind-Ra assesses the level of potential tuition revenue uplift against maximum level established by the government to determine the buffer available in the situation of financial difficulties. Nevertheless, any potential uplift would need to be assessed also in terms of the institution's competitive position and student demand as increases in fees may have a detrimental impact on future enrolment rates.

Expenditure Flexibility

As most of an institution's expenses are related to salaries, its ability to reduce costs or slow the rate of growth may be limited if the majority of faculty is tenured. In the rating process, Ind-Ra discusses with the institution's management the initiatives implemented or planned to address increasing costs associated with electricity, and employees' benefit costs.

In discussing cost management plans with the institution, Ind-Ra seeks to know if the institution has out-sourced any services, increased the number of part-time/guest faculties, reduced the total number of faculty members, changed the endowment spending policy, changed course schedules to improve the use of buildings, or deferred maintenance. The agency does not view delays to building maintenance or repairs to meet the current year's budget favourably. If cost-cutting measures have been implemented, Ind-Ra will discuss with management the success and problems of the measures taken.

Operating Margins

The operating margin measures an institution's ability to generate revenue from its core operations sufficient to meet annual expenditure, fund routine maintenance, and service financial obligations. Although Ind-Ra recognises that margins may vary from year to year, over a five-year period it would expect at least break-even for public institutions and positive performance for private institutions.

Figure 6

Attributes Box No. 6

Stronger attributes	Track record of strong operating performance, supported by a diverse revenue base, solid resource levels and availability of more liquid funds
Midrange attributes	Moderate operating performance, supported by stable, enrolment-related revenue, and adequate to healthy resource levels, with a more limited ability to manage the liquidity issues
Weaker attributes	Weak operating performance supported by variable, enrolment-related revenue, and adequate to weak resource levels; extremely limited financial capacity to manage the risks associated with liquidity issues

Source: Ind-Ra

Balance-Sheet Resources and Liquidity

Ind-Ra reviews an institution’s investment in buildings (either teaching facilities or student accommodation) to assess the expenditure for maintenance and repair of the physical facilities.

In analysing an institution’s resource base, Ind-Ra examines the magnitude of financial assets and the liquidity of these holdings. In general, the largest component of an institution’s investment portfolio are assets held in perpetuity for the long-term benefit of the college, including endowment funds and other funds that function similarly to endowment assets but have fewer restrictions on use. In addition to long-term financial assets, well-endowed public and private institutions may maintain large short- and medium-term cash and investment pools to support short-term working capital needs. These investments tend to be highly liquid and available on demand, or with minimal notice.

To assess the size of an institution’s resource base, Ind-Ra calculates available funds, or total cash and investments not permanently restricted. This balance is then compared with expenditure and leverage as measures of financial flexibility. As part of its analysis of balance-sheet resources, Ind-Ra reviews investment performance since the most recent fiscal year-end audit and considers how recent market movement may or may not have affected metrics derived from the audit.

Ind-Ra evaluates an institution’s investment policy in the context of its overall financial position and financial management practices, including the level of internal reporting controls. For institutions with significant revenue concentration, stagnant demand trends, and erratic operating performance, the liquidity of balance-sheet holdings becomes more important, as this type of institution will rely more on liquid reserves for annual operating support.

Ind-Ra regards negatively, fluctuation in available fund balances or overexposure to less liquid alternatives. However, institutions with more stable operating and financial characteristics have a greater capacity to withstand temporary fluctuations in available fund balances. These institutions are also better equipped to handle illiquidity risks associated with large exposure to nonmarketable securities in light of their consistent ability to cover annual expenditure and meet financial obligations from operations.

The comparison of available funds to unrestricted expenses indicates the buffer an institution has to support operations if the revenue stream is interrupted.

Ind-Ra’s liquidity analysis also focuses on the ability of an institute to manage cash flow mismatch, which is a typical characteristic of the industry. Fee is usually collected quarterly/half-yearly/annually, while operational expenses, largely comprising staff expenses and asset rentals, which are both fixed in nature, are paid out monthly. This could lead to a cash flow mismatch and impact the timely servicing of debt obligations. Ind-Ra’s assessment focuses on liquidity sources, which include adequacy and utilisation of working capital bank lines, cash and fixed deposits maintained through the year to meet operational expenses, and term debt repayment frequency (monthly/aligned with cash inflow).

Receivable days and payable days outstanding, cash conversion cycle and working capital utilisation are other important indicators analysed by Ind-Ra to assess the liquidity situation of an institution.

Debt and Debt Service Coverage

When assessing leverage, Ind-Ra considers existing debt and plans for debt issuance. The agency prefers to see that the institution has a capital improvement plan with a documented process for assessing capital projects, a reasonable time horizon for funding the projects and the funding sources. The plan should cover at least three subsequent years and be reviewed periodically.

When reviewing an institution's level of debt, Ind-Ra calculates ratios that reflect the institution's debt burden and ability to repay the debt. Maximum debt service as a percentage of unrestricted revenue indicates the institution's debt burden or use of revenue that must be used to meet the maximum amount of principal and interest payments for a year. Debt-service coverage is measured through both annual revenue and current balance before interest and depreciation (CBBID). The stronger the coverage, the more likely the institution will make timely debt-service payments. In addition to the ability to pay debt service from annual net revenue, Ind-Ra also reviews available funds to debt.

Available funds for debt service provide an indication of how long the institution could fund debt service from existing cash and investments. As available funds represent the accumulation of surplus revenue over many years, comparing available funds to maximum debt service provides a measure of assurance that debt will be repaid in a timely manner in the event of a financial disruption for any one year. This ratio is similar to what is commonly known as the cushion ratio. Ind-Ra reviews available funds to total debt as this provides a measure of assurance that all debt would be repaid in a timely manner if it all had to be retired immediately.

Ind-Ra examines whether fee inflow to institutions is quarterly, half-yearly, or annually and whether the available funds distort the liquidity position of institutions at the end of a fiscal year. Ind-Ra gives more importance to the cash flow during the year and ascertains whether cash flows are significant enough to honour debt service commitments. Ind-Ra believes despite cyclicality in revenue, institutions with strong brand and better financial management will have significant cushion available to them at the end of a fiscal year.

Ind-Ra also assesses an institution's pension liabilities, evaluating any present deficit, future needs and the nature and flexibility of the funding schemes, both the schemes specific to the institution and the nationwide pension funding systems.

Management and Long-Term Planning

Due to the abundant external pressures and internal organisational issues facing institutions, competent day-to-day management is critical to sound operations. Management's decision-making strategy and ability to control risks, costs and anticipate changes are integral considerations in Ind-Ra's rating analysis. The agency assesses management's knowledge of its internal and external environment and its ability to recognise areas needing improvement. Management's proficiency in adapting to change and implementing solutions is crucial to maintaining sound operations. Proactive management is a positive credit factor.

Ind-Ra reviews the management's strategic plan, which should define the institution's goals and objectives, and the path to accomplish them. A cohesive strategic plan can be used as a management tool if it allows sufficient latitude to maintain flexibility and to be proactive. It should address admissions policies, tuition fees, the institution's involvement with distance education and fund-raising strategies, auxiliary enterprises/shareholdings, and major capital plans. This, in conjunction with the annual budget or projected revenue, expenditure and capital expenditure plan, should paint a reasonable picture of future operations and management's aims. The annual budget should be a detailed document that reflects the institution's strategic plan.

Management's decisions on staffing play a significant role in determining the institution's ability to adjust to changes in the operating environment. For example, management's actions regarding tenured faculty can affect flexibility in both staffing and changes to programmes that are no longer economically viable. Redeployment, or dismissal of tenured faculty, although possible, is a painful process for both institution management and faculty leaders. Institutions with a lower percentage of tenured staff have increased ability to make staffing or programme changes.

Peer Comparison

Comparative Analysis Highlights Similarities and Contrasts

The standardisation of demand data by different institutions is a limiting factor for a robust comparison among colleges and universities with a similar mission and mix of programmes and service offerings. Comparison across unrelated non-profit business lines will be less meaningful. For example, the credit drivers of a voluntary institute engaged in social development differ from the drivers of a research institute, indicating certain demand and financial metrics will not translate to both entities. Thus, Ind-Ra generally conducts its peer analysis for colleges and universities, with similar attributes, among credits at a given rating level.

In cases where Ind-Ra does not maintain ratings on a critical mass of similar credits or where the metrics do not consistently align with or support a rating recommendation, Ind-Ra may expand the universe of comparable colleges and universities. The expanded universe could include the median values of dissimilar colleges and universities at the proposed rating level or, in the case of margins, colleges and universities rated above or below the proposed rating level. In most cases, this analysis helps bolster the rating recommendation and highlights important contrasts.

Importantly, Ind-Ra notes that the ranges over which demand and financial metrics vary can be broad, and that overlap among rating categories for certain metrics is inevitable. Moreover, ratings are forward-looking and imply expectations in conjunction with historical levels. Nevertheless, improvement or deterioration in a college's/university's demand and/or financial metrics is an important rating driver. Such improvement or deterioration is relative to median, and peers are a potential source of positive or negative rating pressure. Other intangible, qualitative variables, such as the strength of the management, also play an integral role in the analysis.

Figure 7

Key Financial Ratios

Ratio	Calculation	Significance
Capital structure and cash flow		
Debt service coverage by CBBID	CBBID/maximum annual debt service (MADS)	Indicates the net revenue available to meet MADS requirements
Debt service coverage by operating CBBID	Operating income + interest, taxes, depreciation, and amortisation expense/MADS	Indicates the net revenue available from core operations (excludes non-operating income) available to meet MADS requirements
MADS as % of total revenue	MADS/total revenues	Indicates the relative burden of debt service relative to total revenues. Higher percentages indicate less room for operating profitability variance
Debt to capitalisation	(Total debt)/(total debt +unrestricted net assets)	Indicates the size of debt compared to the adjusted net worth of the entity
Capital expenditures as % of depreciation expense	Net purchase of property, plant, and equipment/annual depreciation expense.	Indicates the level of capital reinvestment into the facility
Variable-rate debt/total debt	Variable-rate debt/total debt	Provides context for an issuer's exposure to variable rate debt
Liquidity		
Days cash on hand	Unrestricted cash and investments/(cash operating expenses/365)	Indicates financial flexibility and cushion against decline in operating profitability
Cash to debt	Unrestricted cash and investments/total debt	Indicates financial flexibility and cushion against decline in operating profitability
Cushion ratio	Unrestricted cash and investments/MADS	Indicates financial flexibility and cushion against decline in operating profitability
Profitability		
Operating margin	Total operating revenue-total operating expenses/total operating revenue	Provides an indication of a borrower's profitability from core operations
Operating CBBID margin	Income from operations before interest, taxes, depreciation, and amortisation/total operating revenue	Provides an indication of the cash flow from core operations which is available for the payment debt service
CBBID margin	CBBID/total operating revenue + non-operating revenue	Provides an indication of cash flow from operating and non-operating (primarily investment income) which is available for the payment of debt service
Personnel costs as % of total operating revenues	Salaries, wages, benefits, and professional fees/total operating revenue	Provides an indication of how efficient labour is being used

Source: Ind-Ra