

September 19, 2017

Indian School Finance Company Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	26	[ICRA]BBB- (Stable); Assigned
Non-Convertible Debentures	70	[ICRA]BBB- (Stable); Outstanding
Non-Convertible Debentures	78	[ICRA]BBB- (Stable); Outstanding
Long-Term Bank Lines	40	[ICRA]BBB- (Stable); Outstanding
Issuer Rating ¹	-	[ICRA]BBB- (Stable); Outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 26 crore non-convertible debenture (NCD) programme of Indian School Finance Company Private Limited (ISFC)². ICRA also has [ICRA]BBB- ratings outstanding for the Rs.148 crore NCD programme and Rs. 40 crore long-term bank lines of ISFC. ICRA also has an issuer rating of [ICRA]BBB- (pronounced ICRA triple B minus) outstanding for ISFC. The outlook on the long-term ratings and issuer rating is Stable.

Rationale

The rating derives strength from ISFC's experienced management team and Board of Directors, the presence of institutional investors, and its adequate loan appraisal, internal control and monitoring processes for the current scale of operations. The ratings also factor in the company's adequate capitalisation profile (managed gearing³ of 3.92 times and CRAR of 24.9% as on June 30, 2017) and its demonstrated ability to grow business volumes (disbursements grew by 84% and portfolio grew by 85% during FY2017) while improving geographical diversity (share of portfolio in Andhra Pradesh and Telangana reduced from 55% as on March 31, 2015 to 48% as on March 31, 2016 and further to 41% as on June 30, 2017).

The ratings are however constrained by ISFC's relatively moderate track record in the financing business, its limited financial flexibility coupled with high cost of funds, modest asset quality (90+ days past due (DPD) of 2.10% as on June 30, 2017) and modest profitability profile (return on average managed assets and return on net worth of 1.5% and 6.7% during Q1FY2018 and 1.7% and 10.1% during FY2017).

Going forward, the company's ability to diversify its funding mix while reducing the cost of funds and profitably grow the business volumes while maintaining asset quality across a wider geography would be important rating considerations.

¹ With effect from September 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA's website for more details.

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

³ Debt includes off-book portfolio of Rs. 49.1 crore and compulsorily convertible debentures (CCDs) of Rs. 11.97 crore. Excluding off book portfolio and CCDs from debt, gearing stands at 3.2 times as on June 30, 2017

Key rating drivers

Credit strengths

- **Experienced management team and Board of Directors:** ISFC has an experienced management and operational team with the key members having over 20 years of experience in microfinance, academics and finance. The institutional investors on the Board also help the company draw from best practices followed worldwide.
- **Adequate capitalisation:** ISFC capitalisation profile (Tier I CRAR of 20.7% and managed gearing⁴ of 3.9 times as on June 30, 2017) is adequate for its current scale of operations; however, given its high targeted growth of 75-80% CAGR over the next three years, the company would require to raise additional capital to maintain prudent capitalisation profile given its modest internal capital generation.
- **Adequate IT and internal control systems for the current scale of operations:** The company has set up adequate credit appraisal, risk management and portfolio monitoring systems and ICRA expects it to continue to strengthen its processes in line with the growth in business volumes.

Credit weaknesses

- **Ability to maintain asset quality while growing business volumes given the target borrower profile:** ISFC's asset quality indicators deteriorated during FY2017 with 90+ DPD of 1.45% as on March 31, 2017 as compared to 0.93% as on March 31, 2016. The deterioration was mainly on account of slippage of a few big ticket accounts and the impact of demonetisation on collections. The asset quality deteriorated in Q1FY2018 with 90+DPD of 2.10% as on June 30, 2017 on account of delays in payments from schools because of vacations. ICRA notes that the limited credit history and moderate financial profile of ISFC borrowers and the company's assessed income based credit appraisal results in high portfolio vulnerability; however the risk is mitigated by the secured nature of the loan book (~85% of the loan book is secured by property). The company's ability to maintain asset quality would be a key rating sensitivity.
- **Modest scale and regionally concentrated operations currently:** ISFC's reported assets under management (AUM; includes on book and off book portfolio) grew by 80% to Rs. 306 crore as on June 30, 2017 from Rs. 170 crore as on June 30, 2016 while its geographical diversity improved with the share of portfolio in Andhra Pradesh and Telangana reducing from 55% as on March 31, 2015 to 48% as on March 31, 2016 and further to 41% as on June 30, 2017. The company has forayed into new geographies like Orissa and Gujarat in FY2017. However, since it started its operations from the states of Andhra Pradesh and Telangana, the geographical concentration remains skewed in this region.
- **Modest profitability profile:** ISFC reported moderate profitability indicators (return on average managed assets and return on net worth of 1.7% and 10.1% during FY2017 and 1.5% and 6.7% during Q1FY2018) while there was a moderation in operating expenses (6.0% of average managed assets for Q1FY2018 vis-a-vis 6.2% in Q1FY2017). ICRA expects the company's operating expenses to moderate further with increased business volumes, and translate into improved profitability, provided the credit costs remain under control.

⁴ (on book debt + off book debt) / net worth. Debt includes off-book portfolio of Rs. 49.1 crore and compulsorily convertible debentures (CCDs) of Rs. 11.97 crore. Excluding off book portfolio and CCDs from debt, gearing stands at 3.2 times as on June 30, 2017

- **Limited financial flexibility:** ISFC currently has funding relationships with four banks (including small finance banks) and seven NBFCs and financial institutions. It also raises funds through off balance sheet transactions (securitisation) and non-convertible debentures. However, the company's cost of funds is relatively high as 32% of its total borrowings as on June 30, 2017 were from NBFC and financial institutions and only 9% from banks.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company:

Indian School Finance Company (ISFC) is an NBFC providing credit facilities to affordable private schools (APS), colleges, coaching centres, vocational colleges and play schools for infrastructure improvement, capacity expansion and growth. The company currently operates in Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Delhi, Uttar Pradesh, Orissa, Punjab, Gujarat and Haryana with Hyderabad as its registered office.

The company was incorporated in May 1994, as a public limited company by the name of Corporate Deposits Investments Limited. Gray Ghost Ventures (GGV) acquired the NBFC in October 2008 and commenced operations with lending to the APS segment. GGV and its related entities are the majority shareholders (currently holding 82%⁵) in ISFC.

During FY2017, ISFC reported a profit after tax (PAT) of Rs 4.56 crore on a total managed asset base of Rs 364 crore as against a PAT of Rs. 2.17 crore on a total managed asset base of Rs. 182 crore during FY2016. For Q1FY2017, the company reported a PAT of Rs 1.14 crore on a total managed asset base of Rs 360 crore. The company's gross and net NPAs stood at 2.10%⁶ and 1.24% respectively as on June 30, 2017. ISFC reported a capital adequacy of 24.95% as on June 30, 2017 (Tier 1 of 20.72%).

Key Financial Indicators (Audited)

	FY2016	FY2017
Net Interest Income	9.98	15.93
Profit before Tax	2.23	6.86
Profit after Tax	2.17	4.56
Net Worth	23.03	67.69
Total Managed Portfolio	154.07	285.26
Total Managed Assets	182.13	364.29
Gearing (times)	5.58	3.20
% Net Profit/Average Total Assets	1.64%	1.92%
% Return on Net Worth	9.91%	10.05%
% Gross NPAs	0.93%	1.45%
% Net NPAs	0.71%	1.07%
Capital Adequacy Ratio	20.88%	25.57%

Amount in Rs. crore

⁵ Shareholding includes compulsorily convertible preference shares, partly paid shares, ESOPs/Employee Welfare Trust and compulsorily convertible debentures.

⁶ Company recognises non performing assets at 90+ DPD

Source: ISFC, ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table:

S.No	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Rated Amount (Rs. crore)	FY2018		FY2017		FY2016	FY2015
				September 2017	June 2017	March 2017	November 2016	March 2016	NA
1	Non-Convertible Debentures	Long Term	174	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-
2	Bank Lines Programme	Long Term	40	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
3	Issuer Rating	Long Term	-	[ICRA]BBB-(Stable)	Ir BBB-(Stable)	Ir BBB-(Stable)	Ir BBB-(Stable)	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-
Instrument Details**

S.No	ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
1.	INE471Q07042	Non-Convertible Debentures	April 20, 2016	13.80% (net of tax)	May 15, 2019	15.52	[ICRA]BBB-(Stable)
2.	INE471Q07059	Non-Convertible Debentures	November 07, 2016	13.25% (net of tax)	November 07, 2019	20.10	[ICRA]BBB-(Stable)
3.	INE471Q07067	Non-Convertible Debentures	February 22, 2017	13.30%	February 24, 2020	17.00	[ICRA]BBB-(Stable)
4.	INE471Q07075	Non-Convertible Debentures	March 29, 2017	12.64%	September 29, 2019	25.00	[ICRA]BBB-(Stable)
5.	INE471Q07083	Non-Convertible Debentures	June 30, 2017	12.90%	June 30, 2022	25.70	[ICRA]BBB-(Stable)
6.	INE471Q07091	Non-Convertible Debentures	July 28, 2017	12.90%	July 28, 2022	6.40	[ICRA]BBB-(Stable)
7.	INE471Q07109	Non-Convertible Debentures	August 09, 2017	12.90%	August 09, 2022	32.00	[ICRA]BBB-(Stable)
8.	-	Non-Convertible Debentures	-	-	-	26.00	[ICRA]BBB-(Stable)
9.	-	Long Term Bank Lines Programme	-	-	-	40.00	[ICRA]BBB-(Stable)

Source: ISFC; details as on September 14, 2017

Contact Details

Analyst Contacts

Rohit Inamdar

+91-124-4545847

rohit.inamdar@icraindia.com

Manushree Saggarr

+91-124-4545316

manushrees@icraindia.com

Rohit Gupta

+91-124-4545372

rohit.gupta@icraindia.com

Relationship Contact

Jayanta Chatterjee

(+91-80-43326401)

jayantac@icraindia.com

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.

For more information, visit www.icra.in

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax: +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500