

Indian School Finance Company Private Limited

February 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	174.00	174.00	[ICRA]BBB- Reaffirmed; Outlook revised to Positive from Stable
Bank Lines	40.00	40.00	[ICRA]BBB- Reaffirmed; Outlook revised to Positive from Stable
Issuer Rating ¹	-	-	[ICRA]BBB- Reaffirmed; Outlook revised to Positive from Stable
Total	214.00	214.00	

*Instrument details are provided in Annexure – 1

Rating action

ICRA has reaffirmed the rating of [ICRA]BBB- (pronounced ICRA triple B minus) assigned to the Rs. 174-crore non-convertible debenture (NCD) programme and Rs. 40-crore long-term bank lines of Indian School Finance Company Private Limited (ISFC). ICRA has also reaffirmed the issuer rating of [ICRA]BBB- (pronounced ICRA triple B minus) for ISFC. The outlook on the long-term ratings and issuer rating has been revised from Stable to Positive.

Rationale

The ratings for ISFC factor in its demonstrated ability to grow business volumes (disbursements grew by 70% and the portfolio grew by 85% during FY2017) while improving geographical diversity (share of portfolio in Andhra Pradesh and Telangana reduced to 37% as on December 31, 2017 from 55% as on March 31, 2015). The rating also 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 existing scale of operations. The ratings also factor in the company's adequate capitalisation profile (managed gearing² of 5.70 times and CRAR of 20.18% as on December 31, 2017) and its modest asset quality indicators (90+ days past due (DPD) of 1.57% as on December 31, 2017). The ratings are, however, constrained by ISFC's relatively moderate track record in relation to the tenure of the assets, its limited financial flexibility coupled with the high cost of funds and a modest profitability profile (return on average managed assets and return on net worth of 1.7% and 11.2%, respectively, during 9M FY2018 and 1.7% and 10.1%, respectively, in FY2017). Going forward, the company's ability to diversify its funding mix while reducing the cost of funds and profitably growing its 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 Debt includes off-book portfolio of Rs. 80.96 crore and compulsorily convertible debentures (CCDs) of Rs. 11.97 crore. Excluding off book portfolio and CCDs from debt, gearing stands at 4.45 times as on December 31, 2017

Outlook: Positive

The rating revision, from Stable to Positive, factors in the company's ability to profitably improve the business volumes while maintaining modest asset quality indicators, despite demonetisation and the GST implementation. ICRA has also taken note of the expected improvement in capitalisation levels post the company's proposed capital infusion. ICRA expects that the company would be able to leverage the capital to grow as per the business plans over the medium term. The outlook may be revised to Stable if ISFC is unable to raise the planned capital and, hence, not increase the scale of operations. The outlook may be revised to Negative if there is significant deterioration in the company's asset quality and its profitability indicators.

Key rating drivers

Credit strengths

Experienced management team and board of directors - ISFC has an experienced management and operational team with key members having over 20 years of experience in the field of microfinance, school financing, academics and finance. The institutional investors on the Board also help the company benefit from best practices followed worldwide.

Adequate capitalisation, planned capital infusion to strengthen the capitalisation profile – ISFC's capitalisation profile (CRAR of 20.18% and managed gearing of 5.70 times as on December 31, 2017) is adequate for its current scale of operations. The company is in advanced stages of raising capital, which, in ICRA's opinion, will support the company's growth for the next two-three years and improve its capitalisation profile. However, it will require regular capital infusion to achieve the targeted CAGR growth of 60-70% in the medium term while maintaining an adequate capitalisation profile.

Adequate IT and internal control systems for the current scale of operations – ISFC has steadily improved its credit appraisal, risk management and portfolio monitoring systems. The company has implemented a new IT system which has an automated credit appraisal process, integrates the loan collection and monitoring process and helps in establishing a better connect with the customers. ICRA expects the new system to further strengthen the company's processes and help improve customer relationships.

Credit challenges

Ability to maintain asset quality while growing the business - ISFC's asset quality indicators remain comfortable despite declining during 9M FY2018 with 90+ DPD of 1.57% as on December 31, 2017 as compared to 1.45% as on March 31, 2017. The deterioration was mainly on account of an increase in the cheque bounce rate post demonetisation and wilful defaults in case of two large accounts. The increase in delinquency can also be attributed to increased portfolio seasoning, to a certain extent. ICRA has taken note of the steps taken by management to strengthen the collections team and upgrade the IT system, in-line with the business growth. ICRA notes that the limited credit history and the moderate financial profile of ISFC borrower's results in high portfolio vulnerability. The vulnerability is also heightened by the portfolio's geographical concentration though this is gradually reducing. However, the risk is somewhat mitigated by the secured nature of the loan book (~84% of the loan book is secured by property). The company's ability to maintain asset quality while growing business volumes would be a key rating sensitivity.

Modest scale and regionally concentrated operations at present - ISFC's reported assets under management (AUM; includes on book and off book portfolio) grew by 85% in FY2017 to Rs. 285 crore as on March 31, 2017 and Rs. 443 crore as on December 31, 2017. The company operates in 13 states and its geographical diversity has improved with the share of portfolio in Andhra Pradesh and Telangana reducing to 48% as on March 31, 2016 and 37% as on December 31, 2017 from 55% as on March 31, 2015. The company has forayed into new geographies like Orissa and Gujarat in FY2017.

However, since it started its operations in the states of Andhra Pradesh and Telangana, the geographical concentration remains skewed in this region.

Modest profitability profile – ISFC’s yield moderated to 16.6% in 9M FY2018 from 17.8% in FY2017 on account of declining interest rates and increase in competition. The cost of fund moderated to 10.6% for 9M FY2018 from 12.0% in FY2017. NIM declined to 7.2% in 9M FY2018 from 7.5% in FY2017 because of increase in gearing and contraction of spreads. There was also a moderation in operating expenses (5.0% of average managed assets for FY2017 vis-à-vis 4.7% in 9M FY2018) of the company. The company’s profitability remains moderate with return on average managed assets and return on net worth of 1.7% and 11.2%, respectively, as on December 31, 2017 and 1.7% and 10.1%, respectively, during FY2017. ICRA expects the company’s operating expenses to moderate in the medium term with increased business volumes. This should translate into improved profitability, provided credit costs remain under control.

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. ICRA has taken note of the relatively higher cost of funds for the company with 26% of the borrowings, as on December 31, 2017, coming from NBFCs and financial institutions and the balance 74% being from banks and NCDs, which contributed 56%. The company has a modest liquidity profile with small cumulative mismatches in the less than one-year bucket. Short-term funding requirements can be met through borrowings from banks, financial institutions and off balance sheet transactions. The gearing is expected to increase in the short term until the planned capital infusion happens. ICRA expects the company to diversify the funding mix with an increase in the scale of operations and an improvement in its credit profile.

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 operates in Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Delhi, Uttar Pradesh, Orissa, Punjab, Gujarat and Haryana at present with Hyderabad as its registered office.

ISFC was incorporated in May 1994, as a public limited company, under 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 (holding 82% at present) in ISFC.

During FY2017, ISFC reported profit after tax (PAT) of Rs 4.56 crore on a total managed asset base of Rs 364 crore as against PAT of Rs. 2.17 crore on a total managed asset base of Rs. 182 crore during FY2016. For 9M FY2017, the company reported PAT of Rs 6.08 crore on a total managed asset base of Rs 443 crore. The company’s gross and net NPAs stood at 1.57% and 0.86%, respectively, as on December 31, 2017. ISFC reported a capital adequacy ratio of 20.18% as on December 31, 2017.

Key financial indicators (audited)

	FY2016	FY2017	9M FY2018 (Provisional)
Total Income	24.23	38.90	48.45
Profit after Tax	2.17	4.56	6.08
Net Worth	23.03	67.69	73.77
Managed Portfolio	154.07	285.26	443.01
Total Managed Assets	182.13	364.29	504.88
Return on Managed Assets	1.50%	1.67%	1.75%
Return on Net Worth	9.91%	10.05%	11.15%
Gearing (times)	5.58	3.20	4.61
% Gross NPAs	0.93%	1.45%	1.57%
% Net NPAs	0.71%	1.07%	0.86%
Capital Adequacy Ratio	20.88%	25.57%	20.18%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	January 2018	September 2017	FY2017	FY2016	FY2015
1 NCD	Long Term	174.00	174.00	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-
2 Bank Lines Programme	Long Term	40.00	40.00	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
3 Issuer Rating	Long Term	-	-	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	Ir BBB- (Stable)	-	-

Source: ICRA research

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-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE471Q07042	NCD	20-Apr-16	14.6%	15-May-19	15.53	[ICRA]BBB-(Positive)
INE471Q07059	NCD	7-Nov-16	14.1%	7-Nov-19	20.10	[ICRA]BBB-(Positive)
INE471Q07067	NCD	22-Feb-17	13.3%	24-Feb-20	17.00	[ICRA]BBB-(Positive)
INE471Q07075	NCD	29-Mar-17	12.6%	29-Sep-19	20.00	[ICRA]BBB-(Positive)
INE471Q07083	NCD	30-Jun-17	12.9%	30-Jun-20	25.70	[ICRA]BBB-(Positive)
INE471Q07091	NCD	28-Jul-17	12.9%	28-Jul-20	6.40	[ICRA]BBB-(Positive)
INE471Q07109	NCD	9-Aug-17	12.9%	7-Aug-20	32.00	[ICRA]BBB-(Positive)
INE471Q07117	NCD	28-Sep-17	12.3%	28-Sep-20	25.60	[ICRA]BBB-(Positive)
NA	Proposed bank lines	NA	NA	NA	40	[ICRA]BBB-(Positive)
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BBB-(Positive)

Source: Indian School Finance Company Private Limited

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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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