Thirumeni Finance Private Limited

August 13, 2018

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	126.58	126.58	[ICRA]BBB+ (Stable); Revised from [ICRA]BBB (Stable)
Bank Facilities	70.80	70.80	[ICRA]BBB+ (Stable); Revised from [ICRA]BBB (Stable)
Total	**197.38**	**197.38**	

** Instrument details provided in Annexure-1*

Rating action

ICRA has revised the long-term rating outstanding on the Rs. 126.58 crore[1] non-convertible debenture (NCD) programme, and the Rs. 70.80 crore bank facilities of Thirumeni Finance Private Limited (TFPL) to [ICRA]BBB+ (pronounced ICRA triple B plus)[2] from [ICRA]BBB (pronounced ICRA triple B). The outlook on the rating is Stable.

Rationale

The rating upgrade factors in TFPL's sustained growth and profitability, its improved capitalisation profile, and investor commitment which is expected to support business growth over the medium to long term. With an equity infusion of Rs. 200 crore in March 2018, TFPL's gearing improved to 1.82x as on March 31, 2018 compared to 2.82x as on September 30, 2017 despite a steep scale-up in the business in FY2018. ICRA takes note of the portfolio expansion, at a Compound Annual Growth Rate of 53%, expected in the next 3-5 years, which would warrant regular capital infusion. Capital commitment from the investors provide comfort on the company's ability to secure capital in a timely manner to support growth while keeping the capital structure under control. The company's profitability remained adequate with return on managed assets at 2.1% in FY2018 (2.2% in FY2017). While TFPL's operating efficiency is expected to improve with an improvement in the scale, its ability to contain credit costs would be crucial for incremental profitability.

The rating continues to take into account TFPL's experienced senior management team and its prudent credit appraisal and monitoring systems, which are crucial for the high envisaged portfolio growth. ICRA also takes note of TFPL's efforts to augment and broad-base its management team, as reflected by the recent addition of zonal heads under the business development and credit functions. However, ICRA believes that the company would have to further augment its management team as its portfolio and geographical presence expands going forward.

The rating continues to take cognisance of the measured geographical diversification with Karnataka's share of the portfolio moderating to 23.44% in June 2018 (44.2% in March 2016). The rating is, however, constrained by TFPL's modest portfolio seasoning, limited business and earnings diversification. ICRA takes note of the steady shift towards secured lending (94.3% of its portfolio in June 2018 vis-à-vis 74.4% in March 2016). However, an increase in the share of high ticket size loans (61.2% of the loans were >Rs. 50.0 lakh in June 2018 vis-à-vis 23% in March 2016) and the consequent increase in the share of higher-tenure loans (71.5% of the loans were above 72 months' tenure in June 2018 vis-à-vis 17% in March 2016) accentuates the credit concentration risk. Going forward, TFPL's ability to maintain

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

delinquencies at reasonable levels, while growing the portfolio at the envisaged pace, would be crucial considering the moderate credit profile of the target borrower segment. Also, it would be critical for TFPL to improve its funding diversity to secure longer-tenure funding in a timely manner and at competitive rates.

Outlook: Stable

ICRA believes that TFPL would benefit from its prudent lending process and investor commitment towards equity infusion, which would support its business growth. The outlook may be revised to Positive if TFPL is able to improve its earnings profile as the portfolio expands, diversify its funding profile and keep the asset quality under control. The outlook may be revised to Negative if TFPL reports a material deterioration in the asset quality and earnings and in the event of the capital profile weakening more than the envisaged level.

Key rating drivers

Credit strengths

Presence in niche segment and good growth potential - TFPL is a non-banking finance company (NBFC) engaged in lending to private schools (PS) for construction, renovation and capacity expansion. The borrowers are usually school promoters or correspondents. Being an early entrant with a focus on the niche sector of lending to affordable private schools, the company faces limited competition. ICRA notes that with strong potential for geographical expansion and deepening penetration in existing regions, TFPL's growth prospects remain robust. This is expected to support the company's envisaged portfolio CAGR of 50-55% during FY2019-FY2023, with the portfolio expected to cross about Rs. 6,500 crore by March 2023.

Experienced senior management team - TFPL's management team comprises experienced personnel in the field of finance, retail banking, credit underwriting, school financing and operations. Having a strong management team with a good understanding of the education sector enables the company to frame and maintain robust lending and monitoring systems. With robust portfolio expansion plans, the company has strengthened its management team in recent quarters by recruiting experienced personnel as zonal heads for the business development and credit functions. However, with strong growth envisaged over the next three-five years and a widening geographical footprint, the company would have to further broad-base its management team.

Adequate internal controls and monitoring systems - TFPL has steadily increased the share of secured loans over the last three years (94.3% of the portfolio in June 2018 compared to 74.4% in March 2016). However, this was accompanied by an increasing share of large ticket loans with 61.2% of the portfolio comprising loans >Rs. 50.0 lakh in June 2018. The higher share of large ticket loans in relation to the net worth (the top 10 exposures accounted for 13% of the total net worth as on March 31, 2018) exposes the company to credit concentration risks. Nevertheless, TFPL's policy to lend large ticket loans largely to customers with banking track record and having audited financial statements mitigates the challenges associated with income assessment to an extent. ICRA notes that an increase in the share of school property backed loans accentuates the risks pertaining to the difficulty in repossessing the collateral. However, ICRA draws comfort from the relatively superior asset performance of school property backed loans when compared to residential property or commercial property backed.

The company implemented new information technology (IT) systems during FY2018 integrating loan origination, collateral management, loan management and collections. With the implementation of the new software, the entire process of credit assessment to collections is being integrated and is expected to improve management information systems. In addition, the new software would allow management of operational productivity, customer relationship and training. The internal audit team reports to the board's audit committee and conducts audits of all the branches at least once a year while new branches are audited after the completion of six months. For all the collaterals, the company registers charge by way of equitable/registered mortgage on the property provided as security and collection of title deeds. The company follows meticulous loan utilisation checks and monitors credit post disbursement, considering the long tenure of the loans (average tenure of 80 months).

Adequate profitability indicators - TFPL's profitability was stable during FY2018 (net profitability of 2.1% in FY2018 vis-à-vis 2.3% in FY2017) with portfolio expansion, as the operating costs ratio moderated to 4.8% in FY2018 from 5.6% in FY2017 and credit costs remained stable at about 0.9-1%. ICRA expects the operating efficiencies to improve further, going forward, with portfolio growth as the company concentrates on improving per employee productivity. Further, TFPL plans to offer fee-based services to schools, which should augment the non-interest income. However, credit cost is likely to increase from current levels as the portfolio seasons. TFPL's ability to grow at a healthy pace, while keeping its credit and operating costs at reasonable levels, would be crucial for incremental profitability.

Comfortable capitalisation though regular capital infusion required for envisaged growth - The company's capitalisation is comfortable with managed gearing at 1.82x as on March 31, 2018. TFPL raised capital of about Rs. 200 crore from Chrys Capital and other existing investors in FY2018, which, in ICRA's opinion, would support its business growth during FY2019 while maintaining a comfortable capital structure. Assuming internal generation of around 9-11% while capping the gearing at about 4.5 times, TFPL would require incremental capital of around Rs. 500-600 crore during FY2020-FY2023 to achieve its growth targets. Given the strong investor base and commitment, ICRA expects the company to secure equity capital in a timely manner.

Credit challenges

Moderate scale of current operations; steep portfolio growth envisaged during FY2019-FY2023 - TFPL commenced operations in Haryana, Uttarakhand and Delhi/NCR in FY2018. Its current scale of operations remains moderate with a managed asset base of Rs. 838.30 crore as on June 30, 2018. The company expects its portfolio to grow, at a CAGR of about 53% during FY2019-FY2023, to about Rs. 6,500 crore by March 2023. TFPL has steadily increased its presence to about 14 states in June 2018 (4 states in March 2015), with the top 3 states accounting for 58.6% vis-à-vis ~97% in March 2015. Considering the envisaged portfolio growth, ICRA expects the geographical diversification to improve with portfolio expansion, as incremental growth is expected to be driven by venturing into newer geographies and increased penetration in these geographies.

Moderate target customer segment – TFPL focusses on the niche segment of lending to private schools including affordable private schools, which have a moderate credit profile with limited access to formal financing channels. Further, modest portfolio seasoning in relation to the loan tenor (typically 5-7 years) and the relatively higher ticket size of the loans (with 61.2% of the loans above Rs. 50 lakh as on June 30, 2018) exposes the company to credit concentration risks.

Ability to maintain good asset quality profile as business expands - With steady business expansion and seasoning of the loan portfolio, TFPL's delinquencies is expected to increase from the current comfortable levels. In order to address the same, the company has taken significant efforts to improve its collection and recovery mechanism, which includes setting up a tele-calling team to remind borrowers about their dues. The company has been regularly upgrading its software to ensure real time updation and montoring of collections. It also uses the services of local collection agencies for recovery of loans over 90 days past due. While the asset quality is comfortable with 90+dpd (lagged by 6 months) at 2.4% as on June 30, 2018, TFPL's ability to maintain good asset quality with envisaged portfolio growth and seasoning would be critical from a rating perspective.

Ability to diversify funding profile and secure funding at competitive rates in a timely manner - A large share of the company's borrowings is from NBFCs (52.9% as on June 30, 2018), at present. ICRA notes that TFPL's ability to secure incremental funds from banks and others, at competitive rates, would be crucial from a cost of funding and liquidity perspective, considering the steep envisaged portfolio growth. ICRA notes that the company's borrowings have an average tenor of about 3-4 years, while the loans have a contractual tenor averaging about 5-7 years. It is, therefore, crucial to improve the funding diversity and secure longer-tenure loans as the portfolio expands.

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

Thirumeni Finance Private Limited (TFPL) is a non-deposit taking non-banking finance company, incorporated in Cochin, Kerala in June 1984. TFPL was acquired by the current promoters – Mr. Steve Hardgrave and Mr. Brajesh Mishra – in May 2012 and commenced financing operations in January 2013. As on May 31, 2018, the promoters held an 11.9% stake in the company with the balance being held by institutional investors (81.5%), individual investors (2.7%) and an employee share ownership trust (3.9%). TFPL offers credit facilities to private schools, including affordable private schools, for improvement, capacity expansion and growth. The company uses the Varthana brand to establish its identity with the target customer segment. The company currently operates in 14 states including Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Odisha, Rajasthan and Chhattisgarh, with its head office in Bangalore. As on June 30, 2018, TFPL had a portfolio of Rs. 838.30 crore.

Key financial indicators (Audited)

	FY 2016	FY 2017	FY 2018
Total Income (Rs. Crore)	24.0	62.6	117.5
Profit after Tax (Rs. Crore)	0.3	8.3	15.2
Net Worth (Rs. Crore)	122.5	137.7	348.3
Total Managed Portfolio (Rs. Crore)	173.0	402.1	781.0
Total Managed Assets (Rs. Crore)	284.7	464.6	1,006.3
Return on Managed Assets (%)	0.2%	2.2%	2.1%
Return on Net Worth (%)	0.4%	6.3%	6.2%
Gearing (times)	1.3	2.1	1.8
Gross NPA (%)	0.7%	1.5%	1.2%
Net NPA (%)	0.2%	0.5%	0.3%
Capital Adequacy Ratio (%)	71.8%	36.3%	44.6%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated	Amount Outstanding (Rs.	FY2019	FY2018	FY2017	FY2016

			(Rs. crore)	crore)	Aug 2018	Mar 2018	Dec 2017	Jul 2017	Mar 2017	Dec 2016	Jul 2016	Mar 2016	Nov 2015	Jul 2015
1	Fund Based	LT	70.80	57.35	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
2	NCD	LT	12.73[3]	12.73	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
3	NCD	LT	19.95[4]	19.95	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	
4	NCD	LT	33.50	33.50	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)		
5	NCD	LT	20.40	20.40	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)				
6	NCD	LT	40.00	40.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)						

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

[3] *USD 2 million*
[4] *USD 3 million*

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan 1	27-Sep-2015	13.59%	27-Nov-2018	0.76	[ICRA]BBB+ (Stable)
-	Term loan 2	29-Sep-2016	11.43%	30-Sep-2019	2.27	[ICRA]BBB+ (Stable)
-	Term loan 3	20-Mar-2017	11.75%	30-Mar-2020	9.26	[ICRA]BBB+ (Stable)
-	Term loan 4	26-Sep-2017	10.35%	28-Sep-2020	11.91	[ICRA]BBB+ (Stable)
-	Term loan 5	26-Sep-2017	10.30%	28-Oct-2020	4.12	[ICRA]BBB+ (Stable)
-	Term loan 6	01-Sep-2017	10.10%	07-Sep-2020	11.25	[ICRA]BBB+ (Stable)
-	Term loan 7	05-Jan-2018	10.30%	12-Feb-2021	17.78	[ICRA]BBB+ (Stable)
-	Unallocated Bank facilities	-	-	-	13.45	[ICRA]BBB+ (Stable)
INE125T07014	NCD^	09-Jul-2015	14.60%	5-Nov-2019	12.73[5]	[ICRA]BBB+ (Stable)
INE125T07022	NCD^	14-Dec-2015	14.30%	14-Dec-2018	19.95[6]	[ICRA]BBB+ (Stable)
INE125T07030	NCD^	10-Mar-2016	13.34%	10-Mar-2019	33.50	[ICRA]BBB+ (Stable)
INE125T07048	NCD^	16-Dec-2016	12.72%	16-Dec-2019	20.40	[ICRA]BBB+ (Stable)
INE125T07063	NCD^	31-Jul-2017	12.30%	31-Jul-2020	40.00	[ICRA]BBB+ (Stable)

Source: Thirumeni Finance Private Limited; ^ outstanding as of March 2018

[5] *USD 2 million*
[6] *USD 3 million*

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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

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