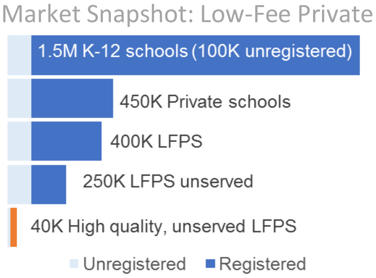
EduIndia by India Education Partners

A private growth debt fund fostering education access and retention in India

I) The Opportunity: K-12 Education in India

Gaps in public funding have led to strong demand for private education. High –quality low-fee private schools (LFPS), while charging only INR 500 ($7.50) per month,(1) provide the same or better quality of education as government schools, with broader content coverage, for a third of the cost.(2)

Market Snapshot: Low-Fee Private Schools



3.5% CAGR

250 avg pupils/school

25% of schools **but**

40% of students

The Problem

There is excess demand for LFPS, and they need growth capital. There are non-banking financing companies starting to provide loans, but Varthana and ISFC (Indian School Finance Company) charge high interest rates of 20-25%(5) that are out of reach for all but the top 50% of the registered LFPS population.

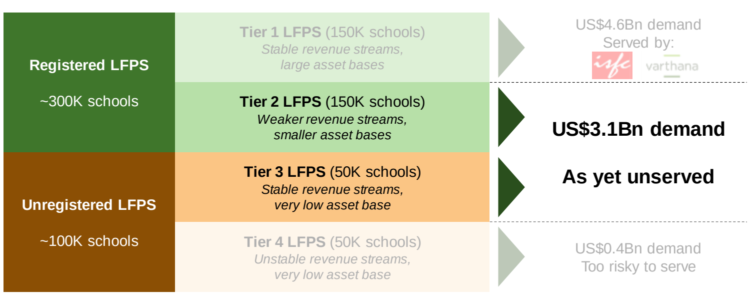
15% of unserved LFPS are high-quality, and demand for these schools is 1.5x current capacity. However, these schools cannot access credit to expand: (3)

- **Insufficient scale** yields cash levels too low for high interest payments
- **Unstable revenue** due to student drop-outs, increasing default risk

II) The Solution: IEP EduIndia Investment Thesis

Our private debt fund provides expansion capital via loans for:

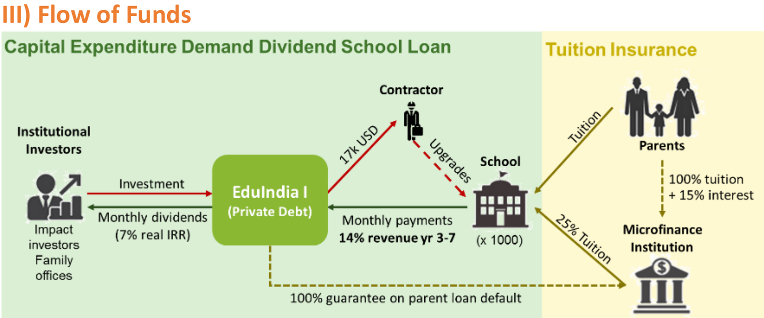
- 30,000 high-quality Tier 2 registered schools too small for ISFC and Varthana seeking to increase school capacity
- 10,000 high-quality Tier 3 unregistered schools seeking to improve infrastructure to meet registration requirements



We are able to reach these markets by introducing two innovations:

1. **A monthly demand dividend payback scheme based on percentage of revenue starting at Year 3, which:**
   - Better fits school's operational cashflows post-expansion
   - And acts as a natural inflation hedge
2. **A mandatory revenue insurance scheme via low-cost student tuition loans through our partner MFIs, 100% guaranteed by the fund**

III) Flow of Funds



The Loan: Demand Dividend Structure

In the first two years, EduIndia will fund 90% of construction costs with direct payments to contractors in 3 disbursements of 10%, 40%, and 50% of the total principal based on achievement of agreed outcomes. Schools will fund the remaining 10%, limiting their ability to service interest payments in the first 2 years. Upon completion of projects in Year 3, schools will increase their student enrollment, increasing yearly revenue. They will also realize cost savings from scale advantages as well as from exploiting our fund's negotiating position with suppliers. By the terms of the contract, EduIndia collects a portion of the tuition fees per month per student from Year 3 on.

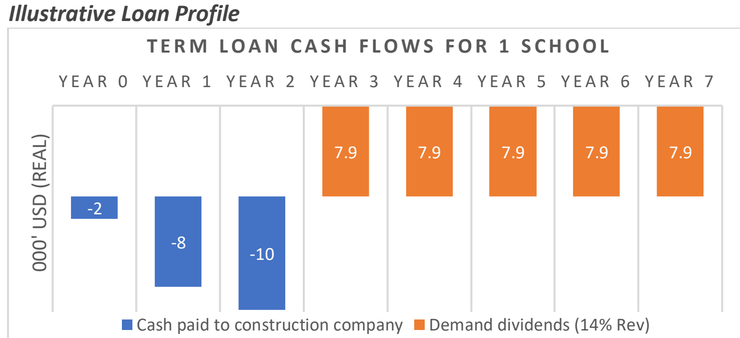
School Investment Criteria

- Enrollment: Min 200 (Average 400)
- Revenue per Year: Min USD 17k (Average USD 34k)
- Operating Efficiency: 10% Net Margin
- Operating Life: At least 2 years
- Student Test Pass Rate Differential over Benchmark: 11%
- Use of Funds: capital expenditure for registration or capacity
- Has space to expand and can benefit from funds
- Is providing quality education according to our assessment
- Minimal competition nearby & at least 10% drop-out rate

Loan Terms

- Avg loan quantum: USD 17k paid direct to construction company
- Disbursements: 10% in Yr 0, 40% end of Yr 1, 50% end of Yr 2
- Loan payback: Yr 3 onwards, monthly payback @ 14% Revenue assuming loan quantum is 50% of pre-loan annual revenue
- Effective loan rate to school (p.a.): 14% (Real), 19% (Nominal)
- Collateral: Expected for >USD 23k loans (Most schools or school founders own land and other property)

Illustrative Loan Profile



Student Loan Partnership with MFIs

We can offer lower rates than ISFC and Varthana by insuring our schools' revenues through partnerships with preferred MFI partners, who provide parents up to 6-month 15% p.a. tuition loans. Existing MFIs charge 24% p.a., but our MFIs can go lower since they are only liable to pay schools 25% of the tuition fees for any on-going loans as per our contract with the schools. This 25% covers the school's marginal cost of hosting the student.

After the loan period, the parents are liable to pay back the MFI in 24 monthly payments of principal and interest based on 100% of tuition fees. If parents default, EduIndia guarantees the loans by paying the MFI the 25% fees they had originally given the school.

Without this scheme, lumpiness in school enrollment would result in schools receiving nothing for dropped-out students' seats, hence reducing their revenue. We expect 10% of students to drop out and MFIs to issue loans for 50% of these students. 50% of students loans will default. Our guarantees on these loans keep interest at 15% p.a., and reflect a 0.4% insurance premium that smooths school revenues and prevents defaults, improving IRR by 2.3%.

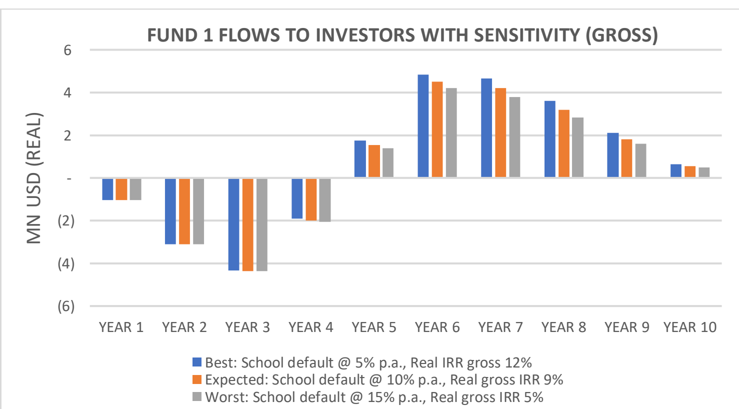
IV) EduIndia Fund I Profile

Asset class	Private Growth Debt Fund
Fund Type	Closed-end
Fund horizon	10 years with callable commitments through year 4
Early Withdrawals	None
Target geography	India: Uttar Pradesh (8,000 schools)
Target Portfolio	1,000 schools by Year 3 (Avg new 30 schools / month)
Fund size	INR 72 Crore (USD 11MM)
Min Investment	INR 3 Crore (USD 500,000)
Target Investors	Impact-Oriented Indian Family Offices, Gov't Grants,
Expected Returns	IRR: 9% (Real), 14% (nominal); mthly payments; gross of fees; in line with Indian LT private debt benchmarks
Fees	2% p.a. mgmt fee, 20% carry above 9% Real gross IRR
Collateral	80% collateral (by value) expected
School defaults	10% defaults expected, with 50% uncollateralized

V) Financial Returns and Cash Flows

Key assumptions

- Schools cost structure: Fixed cost at 35% revenue, marginal cost of 1 student at 25% Revenue
- School acquisition cost: Avg USD 1.7k per selected school – 50% paid to MFI for fact checking (3 target schools per selected school), 50% spent in-house on diligence officers (1.5 targets per selected school)
- Due diligence: Online applications vetted automatically using proprietary metrics. Successful applicants are vetted by MFI loan officers who audit financials. Finally, 1 full-time IEP staff reviews a school for 1 week conducting interviews. Team of 12 IEP staff needed
- School defaults: 50% assumed to be renegotiable, giving IEP on average principal & inflation, balance assumed to be written off



VI) Social and Human Impact

Benefits are threefold:

- More capacity in high quality low-fee private schools, meaning more graduated children
- Fewer drop-outs from schools
- More registered schools that the government can oversee

Impact Metric (IRIS ID)	Outcomes (Fund 1, Yr 10)
New School Registrations	250
Primary Students Affected	0.5 million
School Enrollment: Total (Rate) (PI2389)	+80,000 (+20%)
Student Attendance Rate (PI3786)	+1.5%
Student Dropouts *cumm.* (Rate) (PI9910)	-75,000 (-30%)
Student Transitions *cumm.* (Rate) (PI4924)	+160,000 (+30%)

VII) Risks and Mitigation

Type	Risk	Mitigation
Credit & Reputation	High rate of school defaults	Schools will contribute 10% of construction cost. Extensive due diligence will be done through interviews with locals and verification of owner's financial records. Our model is robust at 20% delinquency and 15% school default rates. To enforce collection, we contract our MFI partners as collectors, who will get 100% of the 5% late payment fee incurred by the schools who miss EMIs.
Operational	High due diligence costs	Schools apply online. We specialize in and standardize our due diligence process. We outsource the first round of documentation checks to our partner MFIs to minimize wasted audits.
	Construction delays	Schools can choose the contractors but disbursements to contractors will be done by our Fund. An outcome-aligned payment scheme will be used with 90% of IEP's payments after completion of certain pre-determined aspects of the projects.
	High rate of student default	As student loans are unsecured and serviced by low-income parents, we anticipate high default rates of 50% or higher. This still prevents half the drop-outs that would have otherwise occurred, so is a positive. Measures like group-based lending will be utilized to minimize this.
Regulatory	Closing of unregistered schools	Partnering with entities like NISA, who are an association of private schools, and using the mass of schools under our portfolio to lobby against government actions. We will also be stricter about requiring collateral for unregistered schools, and following up with their registration process.
	Public school system improving	Efforts by the government are state-level so geographical diversification will play a key role. Further, plans are public and long term (est. 30-40 years to spread across India's 29 states), allowing us to anticipate changes and act accordingly.

VIII) Scalability

Fund I will serve as a pilot to prove the concept. For the initial fund, we will pursue impact investor capital as they have longer time horizons and vested interests in social benefit, or seek to partner with existing non-banking financial corporations like Varthana or ISFC and serve as their pipeline. This adds credibility when approaching investors for subsequent funds.

We also expect impact investors, family offices in India and the Indian government to be interested in Fund II which can be started in Year 4 and focus on some of the Southwestern states where political environment and population income levels are favorable, with 12,000 potential target schools.

Fund III onwards will focus on the broader market in India, with a total of 40,000 schools meeting our criteria and the rest of the emerging markets, with 1 Mn low fee private schools, and likely 100,000 meeting our criteria.

Sources

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2. The Economist, Low-cost private schools, Learning unleashed, Aug 1 2015
3. The New York Times, Many of India's Poor Turn to Private Schools, Dec 30, 2011
4. DFID, UK, 2011, Preliminary Study into Low Fee Private Schools and Education. https://assets.publishing.service.gov.uk/media/57a08abbe5274a27b200072b/60912-GyanShalaFinalReport.pdf
5. Varthana website, https://www.varthana.com
6. Expert interviews (see credits list below)

Credits to: Neeraj Sharma (India, ISFC), Steve Hardgrave (India, Varthana), Peter Hinton (UK, Capital Plus), Apaar Kaliswal (India, UpSkill), Jyoti Aggarwala (Big Path Capital), Shahid Anwar (India, Principal, low fee private school, UP), Paul Christensen (Clinical Prof. of Finance, Kellogg), Adam Connaker (Rockefeller Foundation), Astha Chaturvedi (India, Chaturvedi Foundation), Padma Matmari (India, School principal), Seema Bansal (India, BCG), Hemant Naik (India, School construction contractor in UP), Gayatri Kannan (Ujjivan Financial Services), Deepro Bhattacharyya (Bandhan Bank)