

# **EduIndia Fund I**

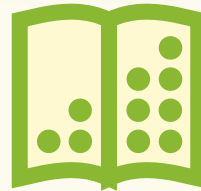
*A private growth debt fund fostering education access and retention in India*

New York, 7 Apr 2017

Halgeri, Ashwin

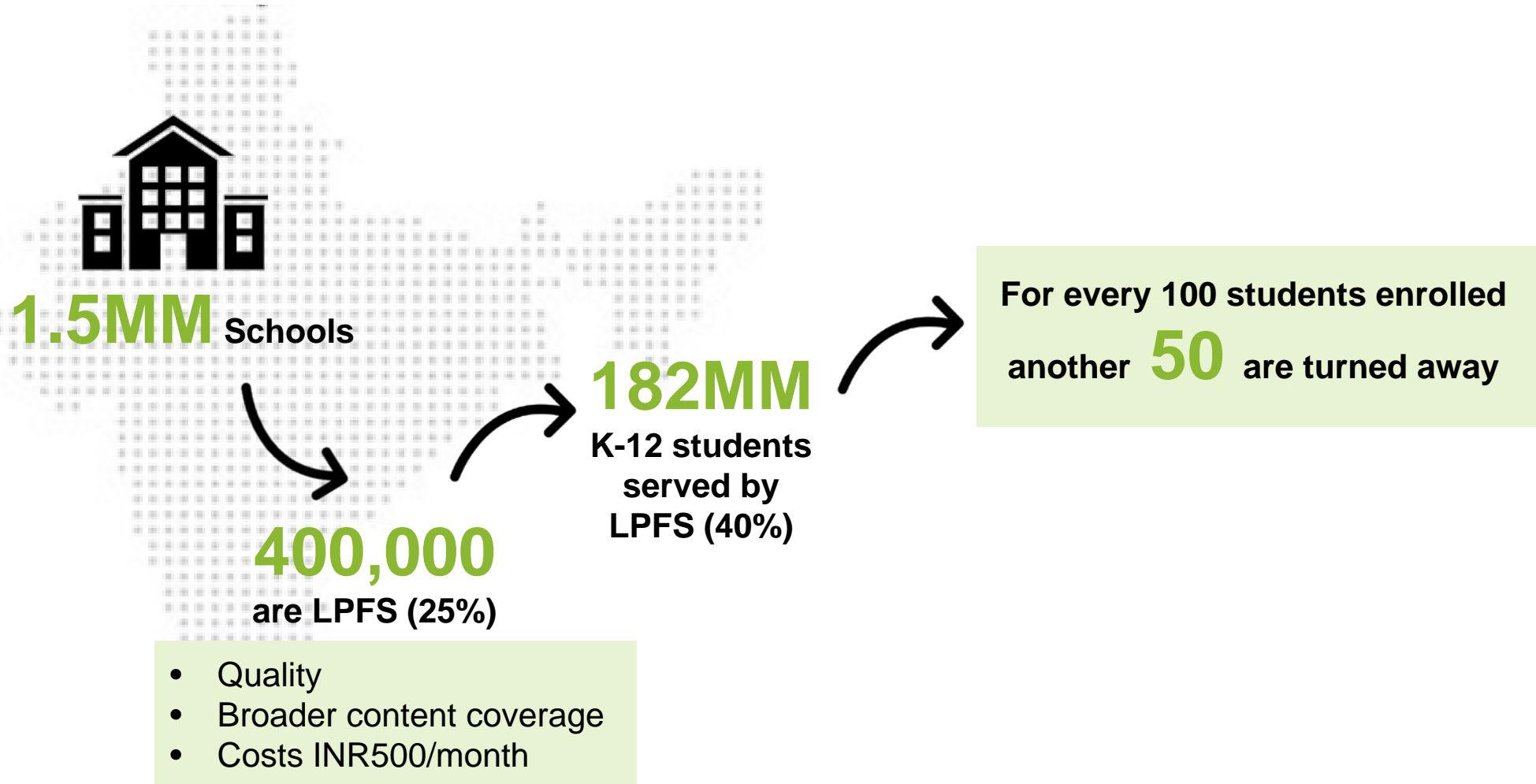
Hoeveler, Erica

Shaw, Chris



**INDIA EDUCATION PARTNERS**

# Low-fee private schools (LFPS): promising alternative to ineffective government run schools for low-income parents



# Room for LFPS to grow, but most lack access to capital

Revenue stability & asset base

Registered LFPS		Unregistered LFPS (Closure risk)	
150K Tier 1 schools <b>\$4.6B</b> <i>Demand for capital (US\$)</i>	150K Tier 2 schools <b>\$2.3B</b> <i>Demand for capital (US\$)</i>	50K Tier 3 schools <b>\$0.8B</b> <i>Demand for capital (US\$)</i>	50K Tier 4 schools <b>\$0.4B</b> <i>Demand for capital (US\$)</i>

Served with term loans:



**US\$3.5Bn unserved**

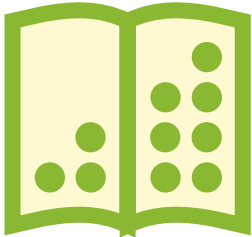
# Room for LFPS to grow, but most lack access to capital

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Served with term loans:



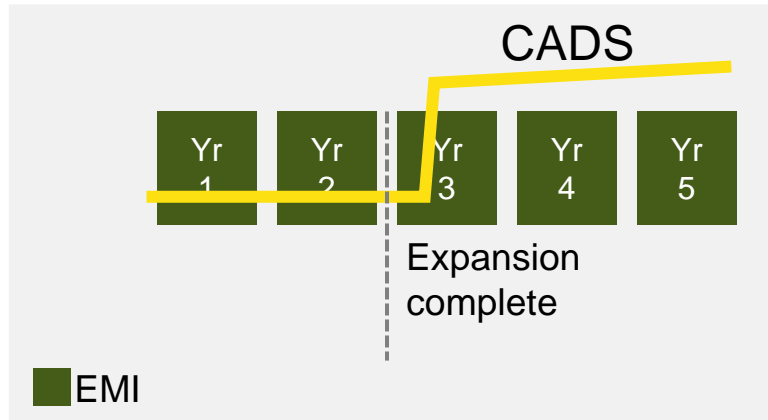
EduIndia I

**Small market**  
**High risk**

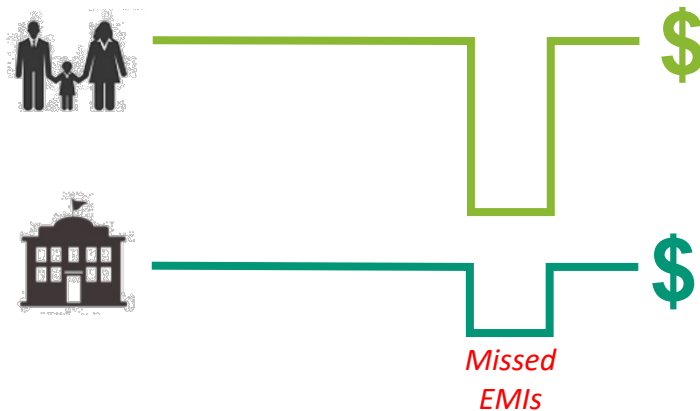
# Tier 2 LFPS face structural challenges

## Issues faced with expansion term loans

Low margins →  
Inability to service  
**initial payments**



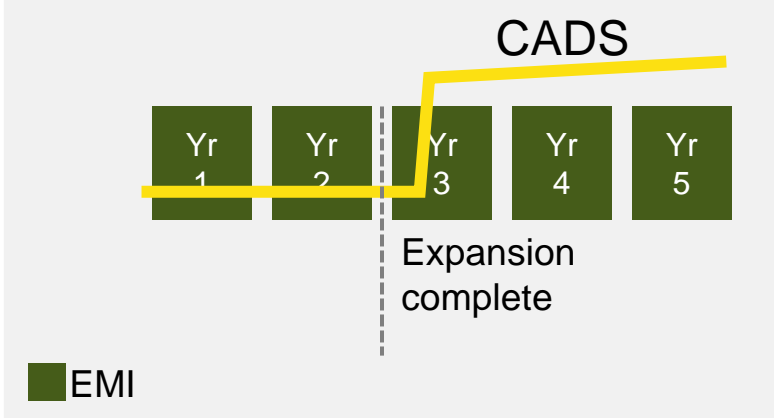
**Volatile parent incomes** leading to  
**default risk**



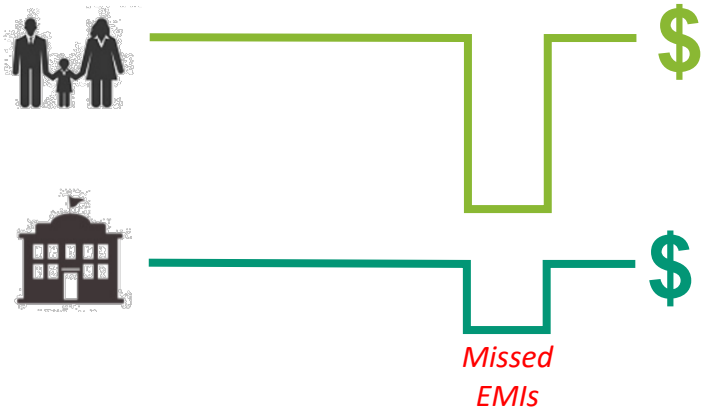
# EduIndia financial mechanisms open up the market

## Issues faced with expansion term loans

Low margins →  
Inability to service  
**initial payments**

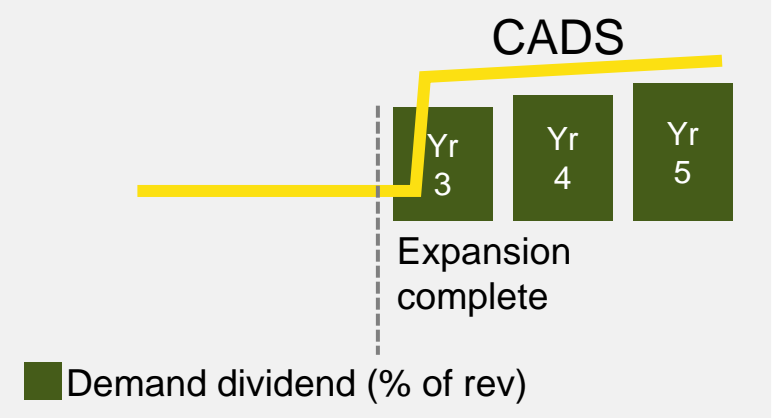


**Volatile parent incomes** leading to  
**default risk**

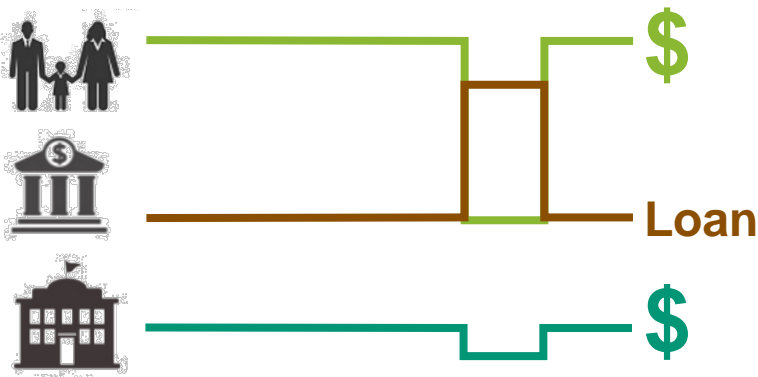


## IEP mechanisms

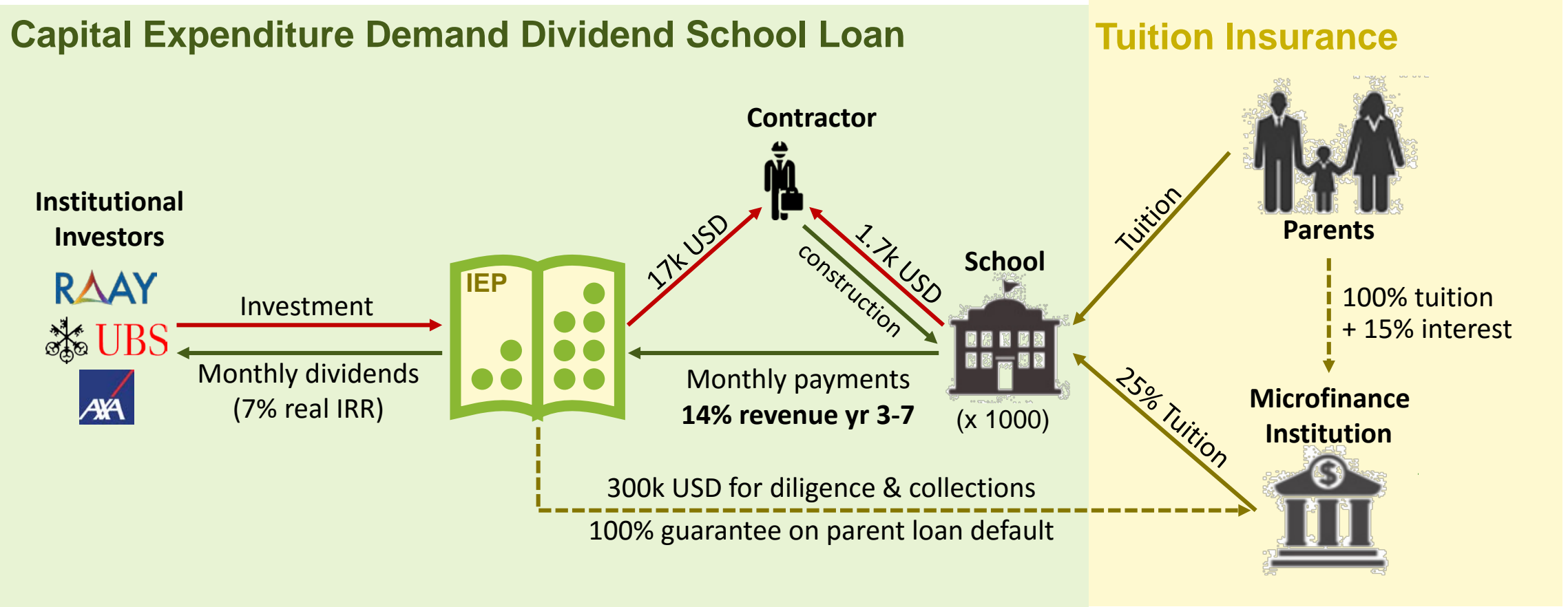
**Deferred Payment + Demand Dividend**



**Tuition insurance with MFI partner**



# The EduIndia Fund Model



# Finer issues resolved to ensure effectiveness

## High school default rates

- Extensive due diligence process
- School has skin in the game
- Partner MFIs

Model robust at 15% school default rates (3X ISFC rates)

## High due diligence costs

- Specialized & standardized process
- Online application with proprietary metrics
- Leveraging MFIs to do first round checks

USD 1,750 per acquisition (30% of ISFC cost<sup>1</sup>)

## Construction delays

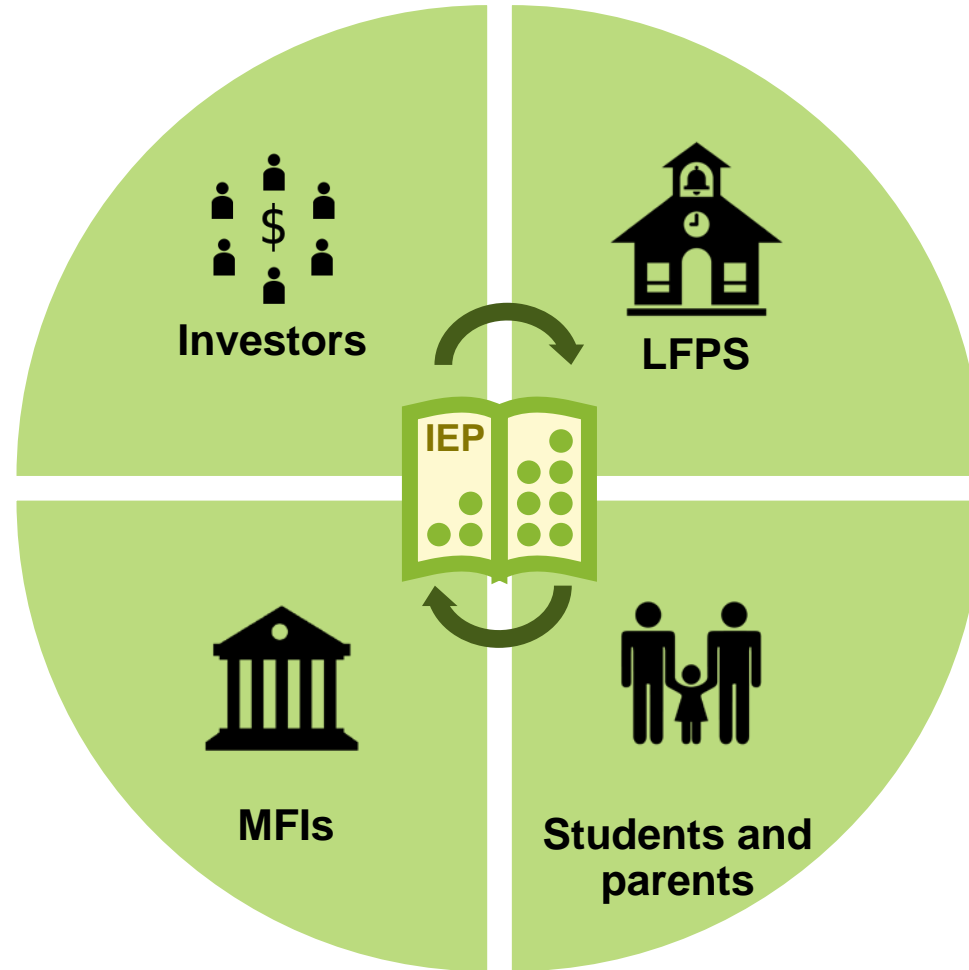
- Check background information of contractors
- Outcome based payments

Expect a 3 month delay, reducing IRR by 0.4%

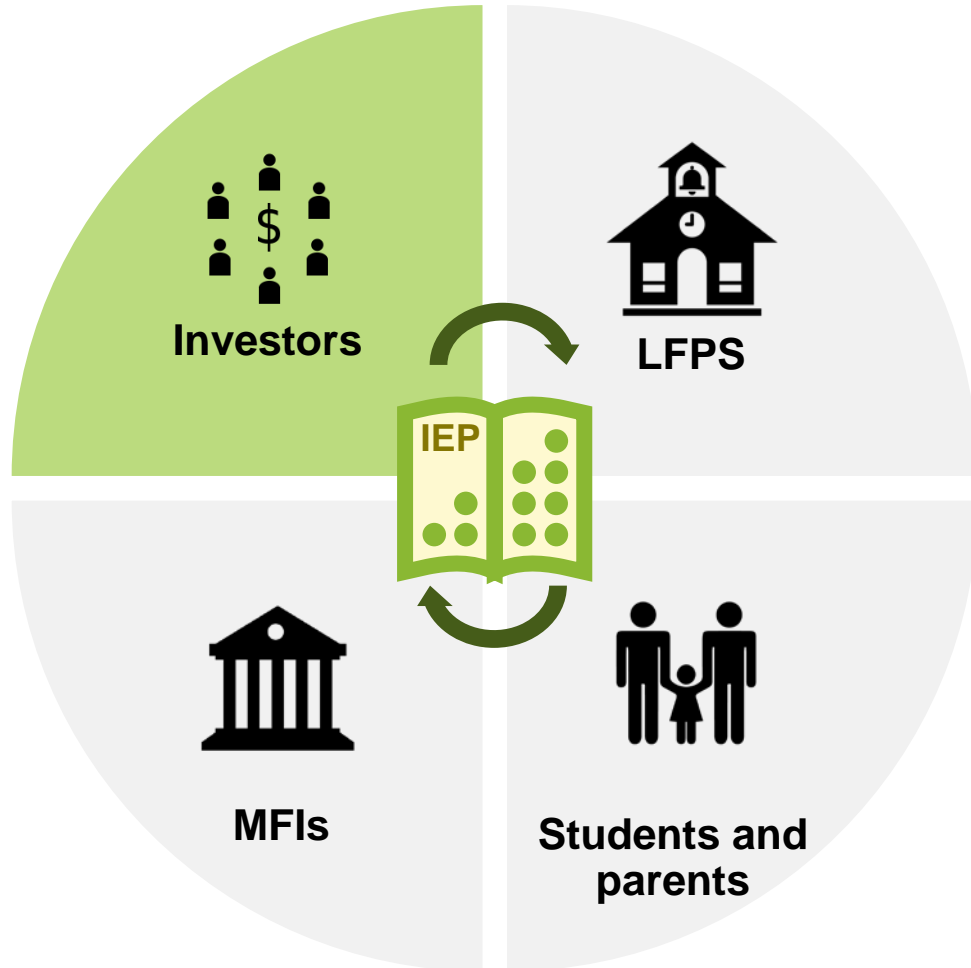
(1) Based on interview with ISFC: 8 person team for 2 weeks earning Rp50,000/mth including travel expense for half the team



# With model in place, value for all involved



# With model in place, value for all involved: Investors



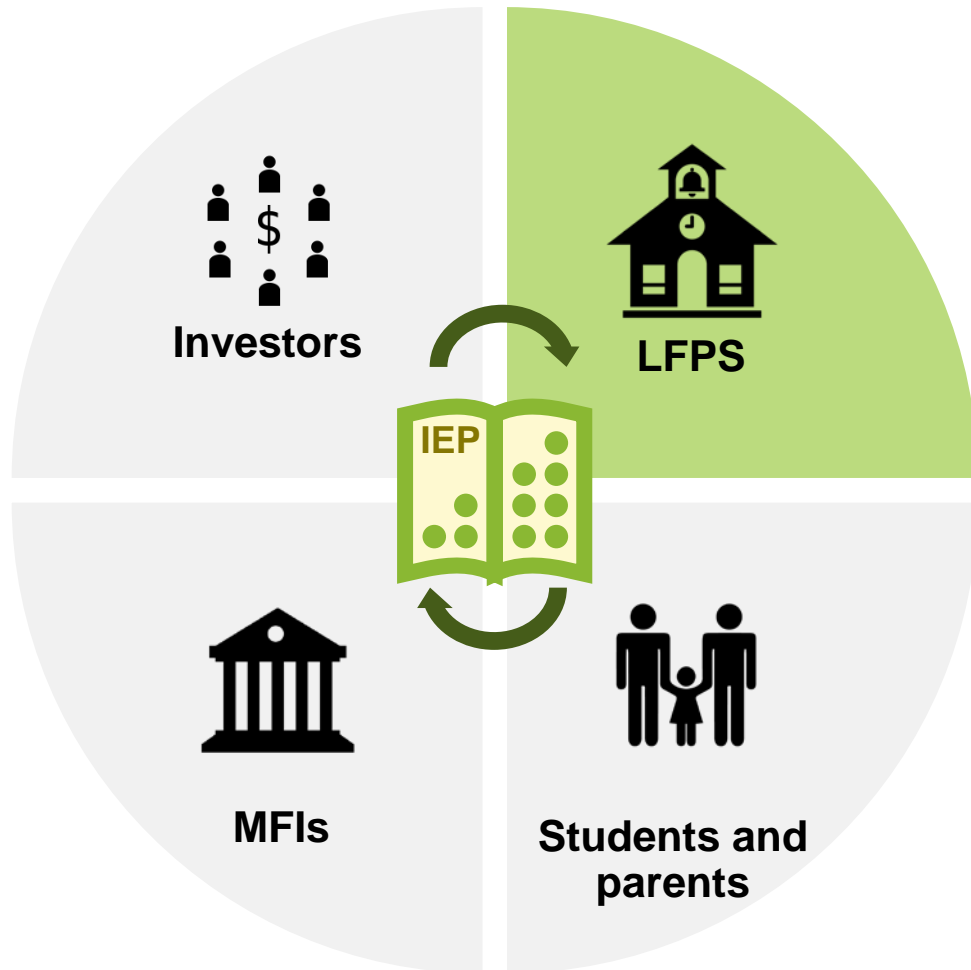
**7%**  
expected  
real returns  
net of fees

- ✓ Inflation hedged
- ✓ On par with Indian Debt Fund benchmarks

**156,000**  
new graduates

- ✓ Social impact from new seats and fewer dropouts

# With model in place, value for all involved: Schools



**80,000**

**new seats  
created**

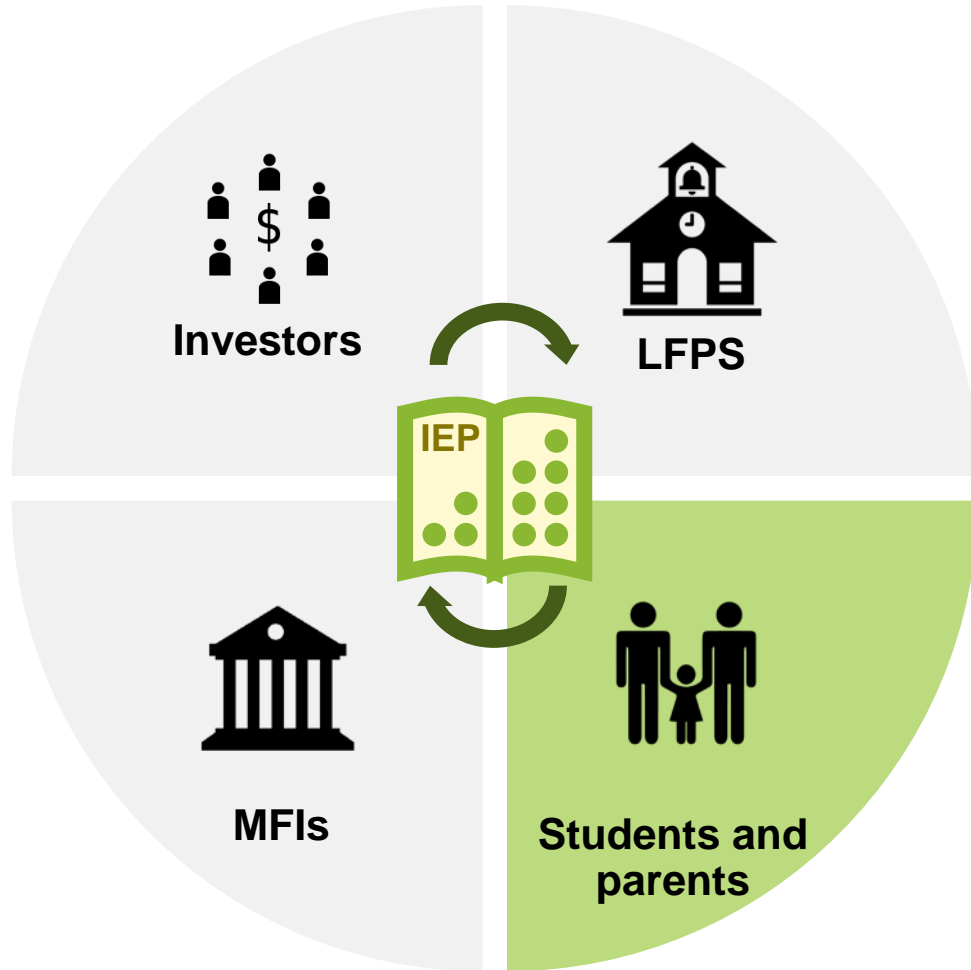
- ✓ Access to expansion capital at lower rates than currently available

**250**

**new schools  
registered**

- ✓ Support to get registered
- ✓ Improved perception

# With model in place, value for all involved: Students

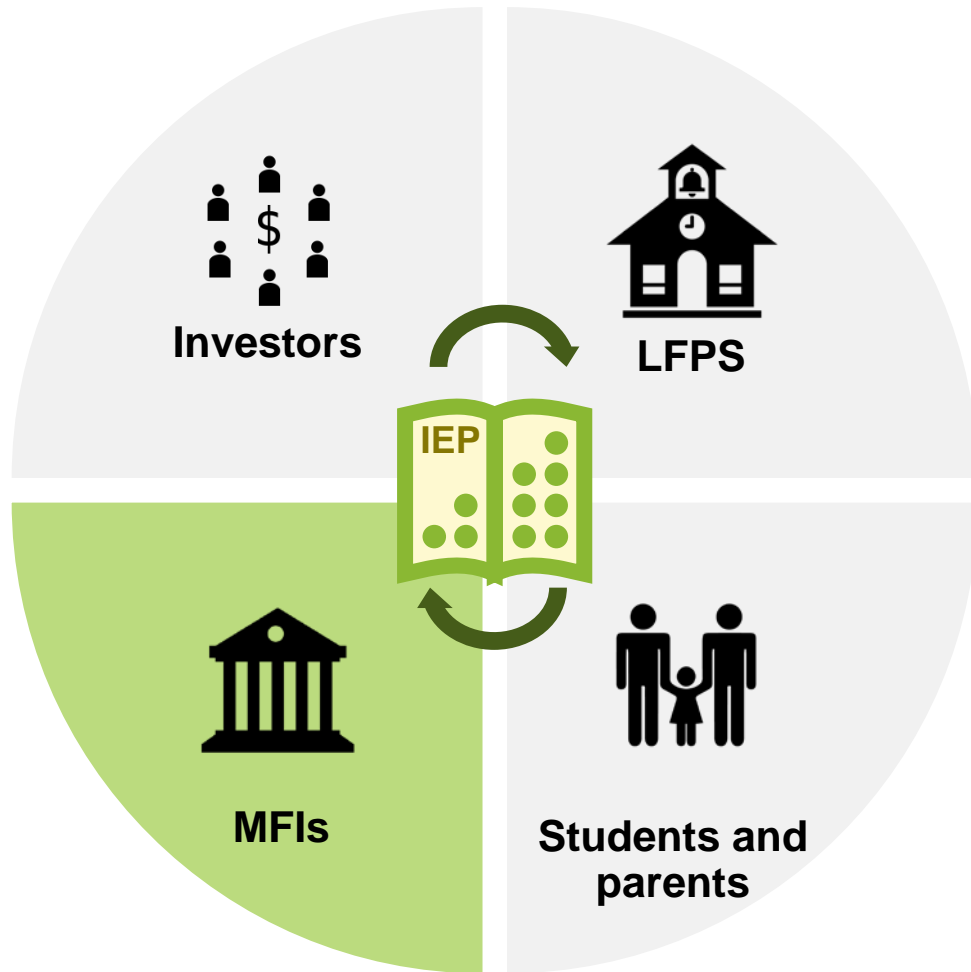


**80,000**

**drop-outs  
prevented**

- ✓ Students have access to better education
- ✓ Tuition insurance scheme in case of parent's financial constraints

# With model in place, value for all involved: MFIs



**\$0.3MM**  
revenue / year

- ✓ Additional income from fact checking & collection

**200,000**  
loans disbursed

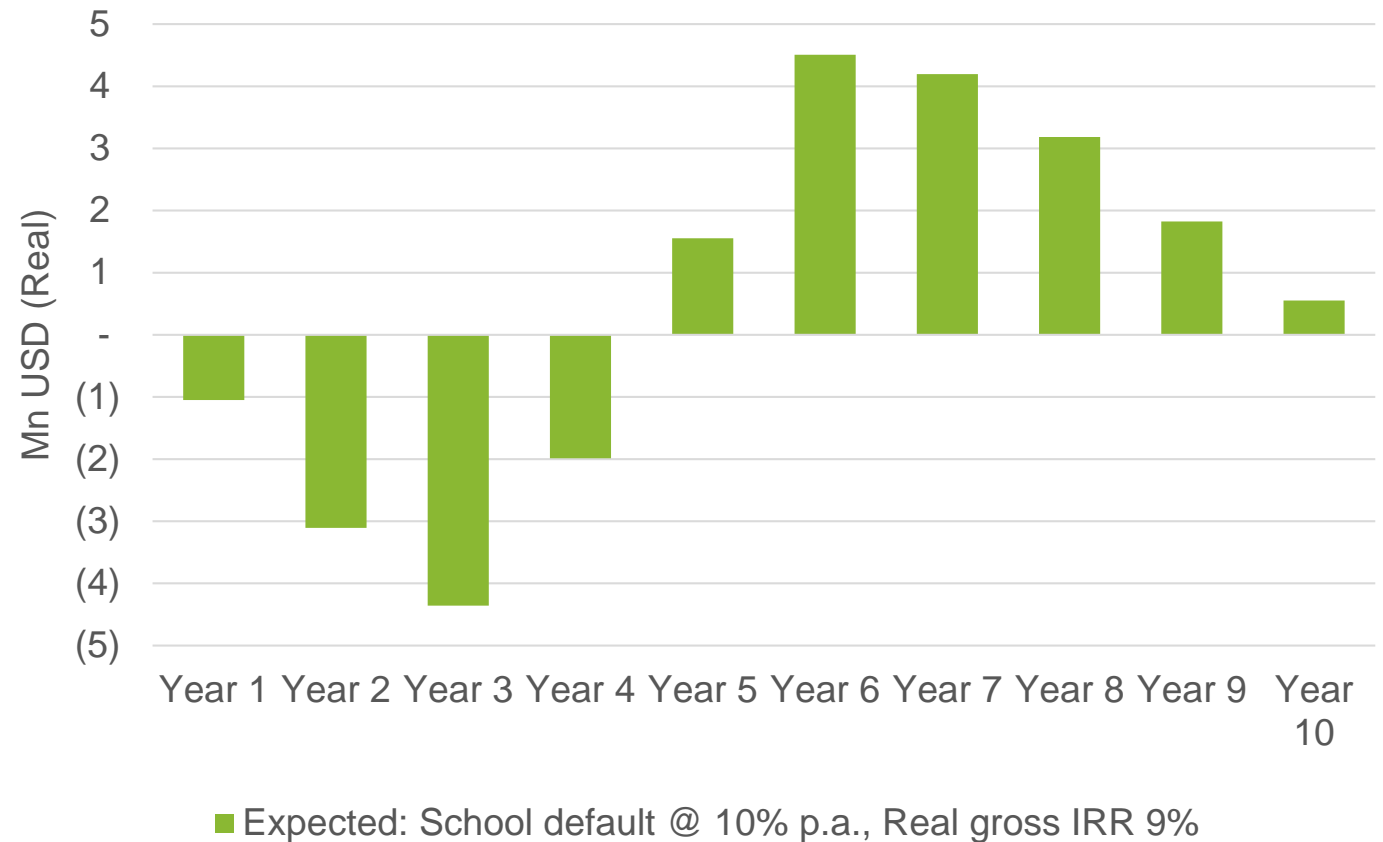
- ✓ Opportunity to cross-sell

# EduIndia I offers attractive returns

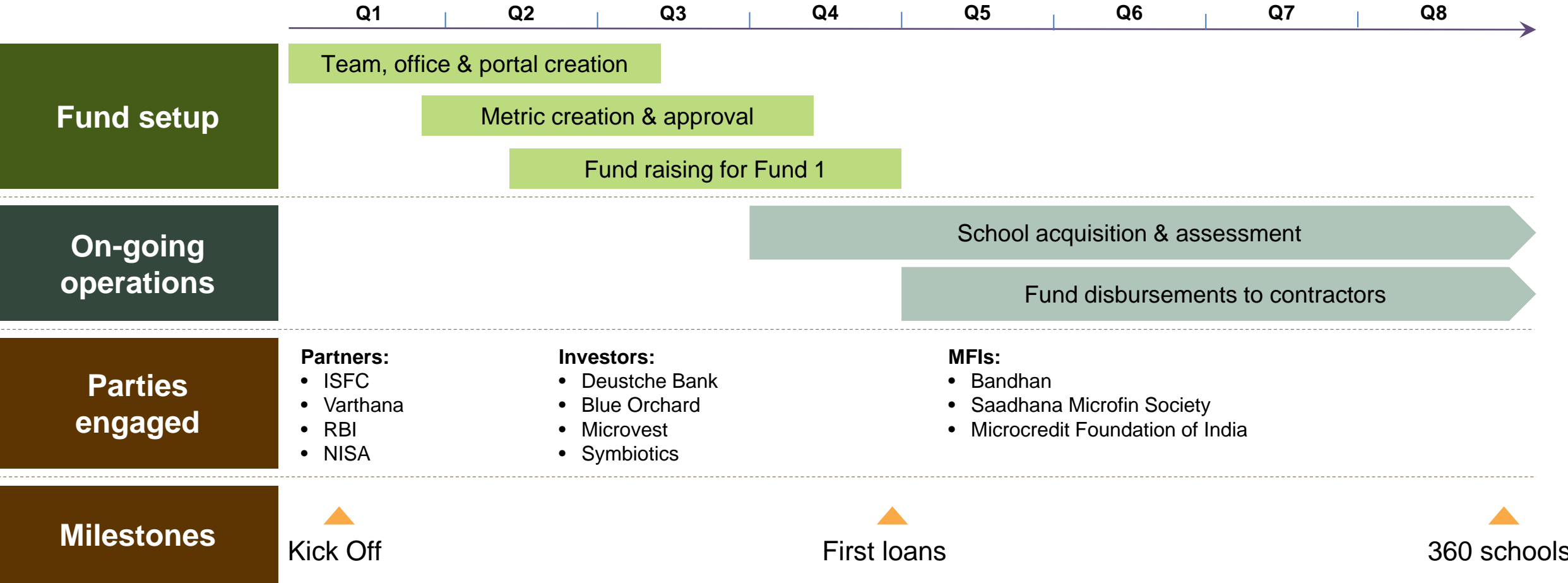
## Fund profile

Type	Closed End
Horizon	10y (callable commitments to yr 4)
Size	USD 11 MM
Ticket	USD 0.5 MM
Fees	Mngt fee: 2% p.a. Carry: 20% (9% real hurdle rate)
Target portfolio	1,000 schools by year 3
Loan/school	USD 17k
Collateral	80% of portfolio
Return	7% real net IRR (inflation-hedged)
$\alpha$	2% (over India LT Private Debt)

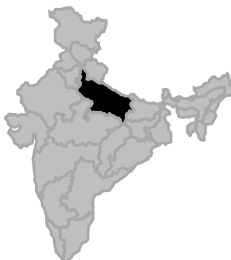
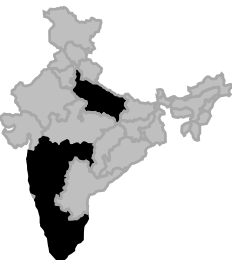

Fund 1 flows to investors (Gross of fees)



# Delivered through a strong execution roadmap



# EduIndia model has strong potential to scale

	Fund I (US\$11M): Pilot	Fund II (US\$140M): India	Subsequent (US\$1.1B): Global
Location & # of potential target schools	 <p>1,000 target schools in Uttar Pradesh</p>	 <p>12,000 target schools in Southwestern states</p>	 <p>100,000 target schools in India, Brazil, Indonesia and Africa</p>
Potential investors & partners	<ul style="list-style-type: none"> <li>• Partnering with ISFC/Varthana</li> <li>• Impact investors</li> </ul>	<ul style="list-style-type: none"> <li>• Impact investors</li> <li>• Family offices</li> </ul>	<ul style="list-style-type: none"> <li>• Impact investors - international</li> <li>• Family offices</li> </ul>
Social impact	<ul style="list-style-type: none"> <li>• 80,000 new seats</li> <li>• 80,000 drop-outs prevented</li> <li>• 250 new registered schools</li> </ul>	<ul style="list-style-type: none"> <li>• 960,000 new seats</li> <li>• 960,000 drop-outs prevented</li> <li>• 3,000 new registered schools</li> </ul>	<ul style="list-style-type: none"> <li>• 8 MM new seats</li> <li>• 8 MM drop-outs prevented</li> <li>• 25,000 new registered schools</li> </ul>



# The right team to deliver



Erica Hoeveler



Ashwin Halgeri



Chris Shaw



# Thanks to all of our mentors



Neeraj Sharma, CEO  
Ankur, CFO



Apaar Kasliwal, UpSkill



Paul Christensen,  
Kellogg Professor



Steve Hardgrave, CEO



Jyoti Aggarwala,  
Big Path Capital



Jose Liberti,  
Kellogg Professor



Shahid Anwar,  
Principal LFPS



Seema Bansal, BCG



Devin Taylor  
US Trust



Padma Matmari,  
Principal LFPS



Adam Connaker,  
Rockefeller Foundation



Deepro Bhattacharyya  
Bandhan



Hemant Naik,  
Contractor



Peter Hinton, Capital Plus



Gayatri Kannan  
Bandhan



Radhika Batra,  
Microvest



Astha Chaturvedi,  
Chaturvedi Foundation



Saurabh Narain  
NCIF



# BACKUP: Potential partners & investors names

## Potential investors

- Blue Orchard
- Microvest
- Symbiotics
- Deutsche Bank
- Family Offices

## Potential MFI partners

- Bandhan
- Microcredit Foundation of India
- Saadhana Microfin Society
- Grameen Koota
- Bharat Financial Inclusion
- Asmitha Microfin Ltd

## Potential MFI partners

- National Independent Schools Alliance
- Chaturvedi Foundation
- Teach for India
- Make a Difference
- Pratham
- Barefoot College India
- Cry

# BACKUP: Main Education Govt schemes

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- **Sarva Shiksha Abhiyan (SSA):** backed by funds from the World Bank's International Development Association (IDA) - ensure quality education of eight years at elementary level for all children in the 6-14 years age group.
- **National Programme for Education of Girls at Elementary Level (NPEGEL), Kanya Saaksharta Protsahan Yojna and Kasturba Gandhi Balika Vidyalaya Yojna** – focus on dropout rates & interest of girls to continue their study.
- **Shiksha Sahayog Yojana:** scholarships to students whose parents are living below or marginally above poverty line
- **Saakshar Bharat:** Focus on Adult Education, especially of women (Adult Education Centers)
- **Mid Day Meal Scheme(MDMS):** Lunch (free of cost) to school-children on all working days

# BACKUP: Example P&L for a school of 400 students expanding capacity by 20%

	Base case	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 10 vs Base case
Ending student numbers	342	358	362	438	435	436	436	436	436	436	436	27%
Students taking up loan	nil	18	18	21	21	21	21	21	21	21	21	-
Students starting repayment	nil	6	9	10	11	11	11	11	11	11	11	-
Number of drop-outs	38	25	27	32	32	32	32	32	32	32	32	-17%
Cumulative drop-outs	nil	25	52	83	115	147	178	210	242	273	305	-
Dropout rate	10%	6%	7%	7%	7%	7%	7%	7%	7%	7%	7%	-32%
Number of graduations	68	72	72	88	87	87	87	87	87	87	87	27%
Cumulative graduates	nil	72	144	232	319	406	493	580	667	755	842	-
School revenue (\$ '000)	27.8	28.2	28.5	34.5	34.2	34.2	34.2	34.2	34.2	34.2	34.2	23%
School opex (\$ '000)	25.0	25.0	25.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	-
Construction costs (\$ '000)	0.0	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Repayments to IEP (\$ '000)	0.0	0.0	0.0	4.9	4.9	4.9	4.9	4.9	0.0	0.0	0.0	-
School net cash (\$ '000)	2.8	2.5	2.8	1.5	1.3	1.3	1.3	1.3	6.2	6.2	6.2	123%
Net cash margin	10%	9%	10%	4%	4%	4%	4%	4%	18%	18%	18%	123%

Expansion complete

Repayments complete

## Loan terms:

- Quantum – \$13.9K (50% of pre-loan revenue)
- Demand dividend – 14% of revenue
- Effective rate (IRR) - 14% p.a.
- School fixed cost @ 35% of pre- loan rev.
- *Note: This is the maximum loan IEP will give for a school of this size (50% pre-loan rev)*
- *Values in real US\$*

# BACKUP: Value proposition to MFIs for EduIndia Fund 1

## Cash benefits (\$0.3Mn/yr for 1,000 schools)



Net earnings from loans: **\$156K/yr**

- 20,000 loans given per year
- -\$115K disbursed to schools
- +\$216K received from parents
- +\$57K from IEP for defaults



Fact checking for IEP: **\$137K/yr**

- 360 schools acquired/yr, 1080 checked/yr
- Each 1-day fact check earns
  - \$116 paid upfront
  - \$615 paid for successful loans (as school makes payments)



Collections for IEP: **\$25K/yr**

- 20% of payments assumed delinquent
- 50% make payment after MFI visits
- 5% late fee given to MFI:
  - Avg. \$24 per successful collection

## Non-cash benefits



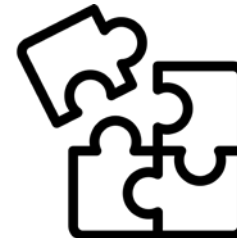
Potential to **cross-sell** to 200,000 customers

- 21,000 loans given per year for 10 yrs of EduIndia Fund 1



**Improved public image**

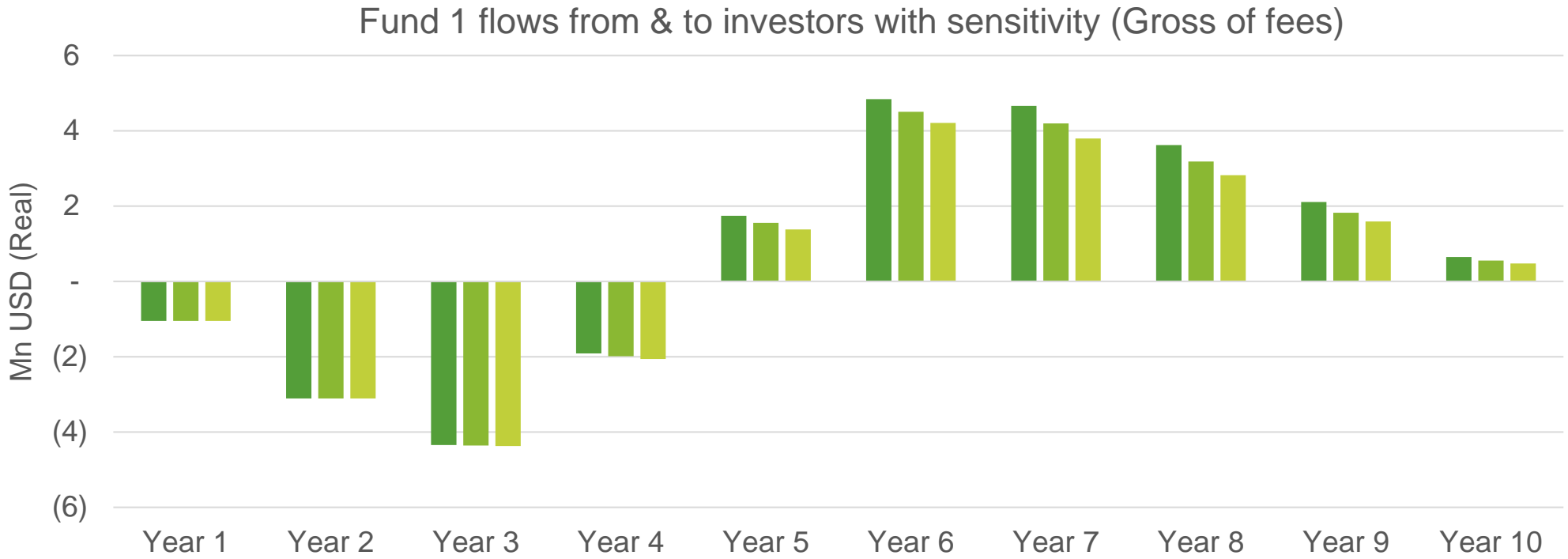
- Offering cheap education loans for social good
- Contrasts against MFIs usual reputation for charging high interest rates



**Fits into current business model**

- Can blend into existing group lending practices in the area

# BACKUP: Cashflows of EduIndia Fund I – 1,000 schools in Uttar Pradesh acquired over first 3 years



■ Best: School default @ 5% p.a., Real IRR gross 12%     
 ■ Expected: School default @ 10% p.a., Real gross IRR 9%  
■ Worst: School default @ 15% p.a., Real gross IRR 7%

# BACKUP: Sensitivity analysis shows an expected real IRR between 7% and 12% (gross of fees)

Variable	Variable range		Gross IRR for IEP		School net cash margin (during repayment)		MFI avg profit / year (US\$ '000)	
	Weak	Strong	Weak	Strong	Weak	Strong	Weak	Strong
<b>School default rate</b>	15%	5%	7%	12%	4%	4%	290	331
<b>% defaults renegotiated</b>	25%	75%	8%	10%	4%	4%	301	317
<b>Student drop-out rate</b>	5%	15%	9%	9%	3%	6%	242	369
<b>Student default rate</b>	75%	25%	8%	10%	3%	5%	228	390
<b>Student loan uptake rate</b>	25%	75%	9%	9%	3%	4%	231	385

Assumptions: School default renegotiations result in principal + inflation returned to IEP. Average school assumed to be 400 students charging INR500/mth or US\$7.5. School loan assumed to be 50% of pre-loan revenue with repayment at 14% of revenue post-Year 3. Student loans assumed to be for 3 mth period, repaid over 2 years in monthly or weekly payments (EMI = INR75 or US\$1.15).



# BACKUP: Debt fund performance benchmarks

Debt Long Term - Returns (in %) - as on Mar 30, 2017

Compare With Indices

Mutual Fund Scheme	Crisil Rank	AUM (Rs. cr.) Dec 16	1mth	3mth	6mth	1yr	2yr	3yr	5yr
ICICI Pru Long Term Plan-PP (G)	Rank 1 ★★★★★	0.59	2.0	0.7	4.2	13.9	10.3	13.4	11.9
ICICI Pru Long Term Plan (G)	Rank 1 ★★★★★	802.65	2.0	0.7	4.2	13.9	10.2	13.3	11.9
HSBC Income (IP)-Inst Plan (G)	Not Ranked ☆☆☆☆☆	2.70	--	--	--	--	--	--	--
ICICI Pru Long Term Plan-RP (G)	Rank 1 ★★★★★	10.90	2.0	0.7	4.2	13.9	10.3	13.4	11.7
UTI Dynamic Bond Fund (G)	Rank 1 ★★★★★	901.16	1.5	1.4	5.6	14.7	10.4	11.7	10.7

\* Returns over 1 year are An

Sponsored Advt

annual inflation	inflation
CPI India 2016	2.23 %
CPI India 2015	6.32 %
CPI India 2014	5.86 %
CPI India 2013	9.13 %
CPI India 2012	11.17 %
CPI India 2011	6.49 %

Top performing funds average of 11.5% nominal returns on LT debt, equal to **5% real returns** with average CPI at 6.5%

Source: CNBC Money Control & inflation.eu

# BACKUP: IEP financials across 10 years of EduIndia Fund I

<i>Values in Real USD Mn</i>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Acquisition officers (IEP staff) <sup>2</sup>	0.25	0.25	0.25	0.02	-	-	-	-	-	-
Acquisition costs paid to MFI	0.12	0.12	0.15	0.08	0.11	0.12	0.11	0.08	0.05	0.01
Loans given out	0.67	2.71	5.00	4.54	2.50	-	-	-	-	-
Compensation paid to MFI	0.01	0.03	0.04	0.06	0.06	0.06	0.06	0.05	0.03	0.01
Repayments received from schools <sup>1</sup>	-	-	1.09	2.71	4.22	4.69	4.36	3.31	1.90	0.58
<b>Net cash (Operations)</b>	<b>(1.05)</b>	<b>(3.11)</b>	<b>(4.36)</b>	<b>(1.99)</b>	<b>1.55</b>	<b>4.51</b>	<b>4.20</b>	<b>3.19</b>	<b>1.82</b>	<b>0.55</b>
Capital called	1.14	3.30	4.54	2.03	-	-	-	-	-	-
Committed capital (pre-mgmt fees & returns)	1.14	4.42	8.87	10.72	10.50	8.95	4.44	0.24	-	-
Management fees <sup>3</sup>	0.02	0.09	0.18	0.21	0.21	0.18	0.09	0.00	-	-
Capital returned	-	-	-	-	1.34	4.33	4.11	3.18	1.82	0.55
Committed capital (post-mgmt fees & returns)	1.11	4.33	8.69	10.50	8.95	4.44	0.24	-	-	-
Net cash balance at IEP	0.07	0.17	0.17	-	-	-	-	-	-	-

*Note: (1) For base case scenario at 10% school default, 9% IRR gross of fees, 7% IRR net of fees. (2) Acquisition officers assumed to be moved on to subsequent funds during Year 4. (3) Supplementary donor funds of US\$0.5Mn needed prior to Year 1 and from Year 1 to 3 to run IEP (next slide). Subsequent fund assumed to start in Year 4, supplementing IEP's revenue and maintaining at at least US\$200K/year*

# BACKUP: IEP Funding needs pre-launch & during first 3 years – US\$0.5Mn, possibly from donors

## IEP costs for Fund 1 (less MFI & acquisition)

Year 0 preparation: **US\$200K**

### Activities: Sourcing partners & setting up team

P&L item	Cost (US\$/yr)
3 person team @ US\$25K/year ea	75
Basic office space & utilities	40
Transportation, lodging & misc	20
Set-up of website & marketing	65

Year 1-10 operations: **US\$200K/year**

### Activities: Processing applications & loans

P&L item	Cost (US\$/yr)
1 analyst to process online apps	15
2 analysts to process loans	30
2 analysts to follow up on EMIs	30
Mgmt team of 3 @ US\$25K/year	75
Basic office space & utilities	40
Transportation, lodging & misc.	10

## Funding needs & sources ('000 US\$)

Year	IEP costs	Mgmt fee	Balance	Source of funds
0	200	0	200	Donor funds to set-up: \$0.5Mn
1	200	23	177	
2	200	88	112	
3	200	177	23	
4	200	214	-14	
5	200	210	-10	None needed
6	200	179	21	Costs covered by subsequent fund mgmt. fees
7	200	89	111	
8	200	5	195	Team is shared & workload on Fund 1 is reduced in Years 6 onwards
9	200	0	200	
10	200	0	200	

# BACKUP: Key risks faced and mitigation measures

## Credit & reputation risks

### School defaults

- Model robust at **15% school default rates**
  - 3x the default rate of ISFC
- Contracts with partner MFIs to **collect on delinquent cases**

### Opaque school quality

- **Direct payments** to contractors
- Extensive **due diligence** with interviews to validate
  - Balance sheet
  - Fee collection
  - Teaching practices
  - Demographics

## Operational risks

### High due diligence costs

- **Online** application
- IEP's **specialized & standardized DD<sup>1</sup>** process

### Construction delays

- **Preferred** partner contractors
- **Outcome-based** fees

### High drop-out rate

- Model robust at **15% student drop-out rate**
- Geographical diversification

### Partner fraud

- Global MFI partners
- **Random spot checks**

## Regulatory risks

### Closing of un-registered schools

- Partnering with NISA<sup>2</sup>
- Lobbying against government action
- **Collateral required** for unregistered schools
- Close tracking of registration progress

### Better public school system

- **Diversification** geographically to various states
- Slow moving & predictable risk



# BACKUP: Loan to schools timeline

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- Online application and documentation submission
- IEP analyst checks school vitals against metrics and if passed:
- Partner MFI checks school documentation with on-ground visit
- Due diligence by IEP: additional doc verification; interviews with locals; check TransUnion CIBIL Limited (former Credit Information Bureau (India) Limited)
- Agreement between contractor, school & IEP
- First payment to contractor (matched by school)
- Construction, subsequent disbursements based on outcome
- Year 3 onwards, school gets additional capacity and repays based on revenue

# BACKUP: Loan to parents timeline

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- If parents claim they cannot pay, our partner MFI investigates and if plausible gives them a loan
- MFI covers the marginal cost for the school (25% of fees) and student continues in school
- Loan period over, two possible paths:
  - Parent defaults, student is removed from school, IEP pays MFI (50% chance)
  - Parent repays and MFI keeps the full repayment from parents

# BACKUP: What if schools cannot pay?

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- Partner MFI goes for debt collection
  - If successful, schools pay 5% penalty on late EMI
- If debt collection fails, IEP officers attempt to renegotiate to at least re-capture principal and inflation from school
  - If renegotiation fails, & school has collateral: legal action
  - If renegotiation fails, & school has no collateral: marked as loss
- Expected default rate (marked in allowance for doubtful accounts): 10%, of which 50% can be renegotiated and balance are marked as loss

# BACKUP: How will payments to contractors work?

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- Schools identify contractors and submit plan to IEP with payment times based on successful outcomes
- IEP checks available background information about the contractors and approve contractor/plan or require plan adjustments
- If plan is approved:
  - First payment made jointly by school & IEP
  - Further payments made by IEP as school reports when contractors have completed work at each stage with photographic evidence
- Once project is complete, IEP due diligence officers visit the site to ensure construction is completed well
- Over time, IEP will have a list with main contractors that may be automatically authorized to work with portfolio schools

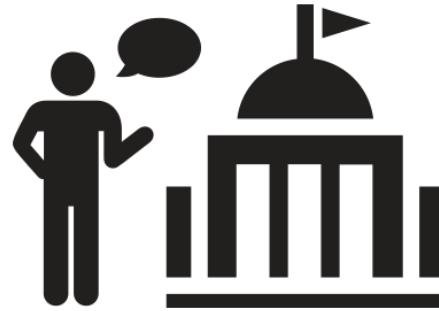


# BACKUP: Serving unregistered schools is risky, three mitigation measures



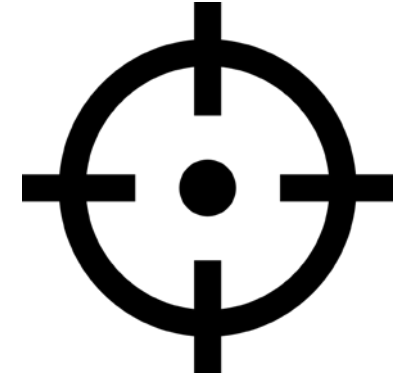
## Stricter collateral requirements

- Loans to unregistered schools would be given directly to owner
- Personal collateral will be taken for the loan (e.g. owners house or property)



## Lobbying with government through NISA

- Forming strong relationship with local government at a higher level will minimize closures
- Partnering also with entities like NISA (National Independent Schools Association)



## Tracking registration efforts

- More scrutiny on unregistered schools to ensure that progress towards registration is made within Years 1 and 2 of the loan

# BACKUP: Due diligence process & financials

## Due diligence process

### Online application for schools

- Expected conversion: 10 applications to 1 loan
- Process highly automated with proprietary metrics on financials, demographics, location & competition to quickly sort through and identify potential targets

### Fact checking by MFI

- Expected conversion: 3 schools checked per loan
- MFI contracted to have 1 loan officer spend 1 day validating all the information submitted online (e.g. number of students, size of school)

### Due diligence by IEP

- Expected conversion: 1.5 schools visited per loan
- Dedicated IEP due diligence officer visits school for 1 week, interviewing all relevant parties (parents, teachers, principal & locals) as well as surveying the area

## Expected costs (US\$1.75K per acquired school)

### 1 full-time analyst at US\$15K/yr

- In Years 1 to 3, 300 applications vetted per month
- Feasible thanks to automated process and quick validation using metrics developed in Year 0

### \$116 paid to MFI per fact checked school

- \$615 paid to MFI for any school that successfully converts to a loan, but only as the school makes EMIs
- If school defaults, MFI's payments are stopped

### 1 due diligence officer for 1 week: \$500/visit

- \$250 for officer wages & \$250 for transport and board