EduIndia Fund I

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

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Hoeveler, Erica
Shaw, Chris
Low-fee private schools (LFPS): promising alternative to ineffective government run schools for low-income parents

- Quality
- Broader content coverage
- Costs INR500/month

For every 100 students enrolled another 50 are turned away

1.5MM Schools

400,000 are LPFS (25%)

182MM K-12 students served by LPFS (40%)
Room for LFPS to grow, but most lack access to capital

<table>
<thead>
<tr>
<th>Registered LFPS</th>
<th>Unregistered LFPS (Closure risk)</th>
</tr>
</thead>
<tbody>
<tr>
<td>150K Tier 1 schools</td>
<td>50K Tier 3 schools</td>
</tr>
<tr>
<td>$4.6B Demand for capital (US$)</td>
<td>$0.8B Demand for capital (US$)</td>
</tr>
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<td>150K Tier 2 schools</td>
<td>50K Tier 4 schools</td>
</tr>
<tr>
<td>$2.3B Demand for capital (US$)</td>
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</tr>
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Served with term loans:

US$3.5Bn unserved
Room for LFPS to grow, but most lack access to capital

Revenue stability & asset base

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</tr>
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</table>

Served with term loans:
- ISFC
- varthana
- 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

Diagram:
- CADS
- EMI
- Missed EMIs
- Volatile parent incomes leading to default risk
- Low margins → Inability to service initial payments

Timeline:
- Yr 1
- Yr 2
- Yr 3
- Yr 4
- Yr 5
- Expansion complete

- Volatile parent incomes leading to default risk
- Low margins → Inability to service initial payments
EdulIndia 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
- Loan
The EduIndia Fund Model

Capital Expenditure Demand Dividend School Loan

- **Institutional Investors**
  - **Investment**
  - Monthly dividends (7% real IRR)

- **IEP**

- **Contractor**
  - 17K USD construction
  - Monthly payments 14% revenue yr 3-7

- **School** (x 1000)

- **Tuition Insurance**
  - 100% tuition + 15% interest

- **Parents**

- **Microfinance Institution**
  - 25% Tuition

- **UBS**

- **AXA**

- **300k USD for diligence & collections**
  - 100% guarantee on parent loan default
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\(^1\))

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**
- **156,000 new graduates**
- Inflation hedged
- On par with Indian Debt Fund benchmarks
- Social impact from new seats and fewer dropouts

**Investors**

**MFIs**

**Students and parents**

**LFPS**

**IEP**
With model in place, value for all involved: Schools

- **Investors**
  - Access to expansion capital at lower rates than currently available

- **LFPS**
  - 80,000 new seats created

- **MFIs**
  - Support to get registered
  - Improved perception

- **Students and parents**
  - 250 new schools registered
With model in place, value for all involved: Students

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

80,000 drop-outs prevented
With model in place, value for all involved: MFIs

- Investors
- LFPS
- Students and parents
- MFIs

$0.3MM revenue / year

- Additional income from fact checking & collection

200,000 loans disbursed

- Opportunity to cross-sell
EdulIndia I offers attractive returns

<table>
<thead>
<tr>
<th>Fund profile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type</strong></td>
</tr>
<tr>
<td><strong>Horizon</strong></td>
</tr>
<tr>
<td><strong>Size</strong></td>
</tr>
<tr>
<td><strong>Ticket</strong></td>
</tr>
<tr>
<td><strong>Fees</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Target portfolio</strong></td>
</tr>
<tr>
<td><strong>Loan/school</strong></td>
</tr>
<tr>
<td><strong>Collateral</strong></td>
</tr>
<tr>
<td><strong>Return</strong></td>
</tr>
<tr>
<td><strong>α</strong></td>
</tr>
</tbody>
</table>

- **Fund 1 flows to investors (Gross of fees)**

- Expected: School default @ 10% p.a., Real gross IRR 9%
Delivered through a strong execution roadmap

**Fund setup**
- Team, office & portal creation
- Metric creation & approval
- Fund raising for Fund 1

**On-going operations**
- School acquisition & assessment
- Fund disbursements to contractors

**Parties engaged**
- **Partners:**
  - ISFC
  - Varthana
  - RBI
  - NISA
- **Investors:**
  - Deustche Bank
  - Blue Orchard
  - Microvest
  - Symbiotics
- **MFIs:**
  - Bandhan
  - Saadhana Microfin Society
  - Microcredit Foundation of India

**Milestones**
- Kick Off
- First loans
- 360 schools
EdulIndia model has strong potential to scale

<table>
<thead>
<tr>
<th>Location &amp; # of potential target schools</th>
<th>Social impact</th>
<th>Potential investors &amp; partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund I (US$11M): Pilot</td>
<td>- 80,000 new seats</td>
<td>• Partnering with ISFC/Varthana</td>
</tr>
<tr>
<td></td>
<td>- 80,000 drop-outs prevented</td>
<td>• Impact investors</td>
</tr>
<tr>
<td></td>
<td>- 250 new registered schools</td>
<td>• Family offices</td>
</tr>
<tr>
<td>1,000 target schools in Uttar Pradesh</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund II (US$140M): India</td>
<td>- 960,000 new seats</td>
<td>• Impact investors</td>
</tr>
<tr>
<td></td>
<td>- 960,000 drop-outs prevented</td>
<td>• Family offices</td>
</tr>
<tr>
<td></td>
<td>- 3,000 new registered schools</td>
<td></td>
</tr>
<tr>
<td>12,000 target schools in Southwestern states</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsequent (US$1.1B): Global</td>
<td>- 8 MM new seats</td>
<td>• Impact investors - international</td>
</tr>
<tr>
<td></td>
<td>- 8 MM drop-outs prevented</td>
<td>• Family offices</td>
</tr>
<tr>
<td></td>
<td>- 25,000 new registered schools</td>
<td></td>
</tr>
<tr>
<td>100,000 target schools in India, Brazil, Indonesia and Africa</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The right team to deliver

Erica Hoeveler

Ashwin Halgeri

Chris Shaw
Thanks to all of our mentors

Neeraj Sharma, CEO
Ankur, CFO

Steve Hardgrave, CEO

Shahid Anwar, Principal LFPS

Padma Matmari, Principal LFPS

Hemant Naik, Contractor

Radhika Batra, Microvest

Apaar Kasliwal, UpSkill

Jyoti Aggarwala, Big Path Capital

Seema Bansal, BCG

Adam Connaker, Rockefeller Foundation

Peter Hinton, Capital Plus

Asth Chaturvedi, Chaturvedi Foundation

Paul Christensen, Kellogg Professor

Jose Liberti, Kellogg Professor

Devin Taylor
US Trust

Deepro Bhattacharyya
Bandhan

Gayatri Kannan
Bandhan

Saurabh Narain
NCIF
### 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

- **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%

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

### 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

<table>
<thead>
<tr>
<th>Cash benefits ($0.3Mn/yr for 1,000 schools)</th>
<th>Non-cash benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net earnings from loans: $156K/yr</strong></td>
<td>Potential to <strong>cross-sell</strong> to 200,000 customers</td>
</tr>
<tr>
<td>- 20,000 loans given per year</td>
<td>- 21,000 loans given per year for 10 yrs of EduIndia Fund 1</td>
</tr>
<tr>
<td>- -$115K disbursed to schools</td>
<td><strong>Improved public image</strong></td>
</tr>
<tr>
<td>- +$216K received from parents</td>
<td>- Offering cheap education loans for social good</td>
</tr>
<tr>
<td>- +$57K from IEP for defaults</td>
<td>- Contrasts against MFIs usual reputation for charging high interest rates</td>
</tr>
</tbody>
</table>

**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

**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

Fund 1 flows from & to investors with sensitivity (Gross of fees)

Year 1 Year 2 Year 3 Year 4 Year 5 Year 6 Year 7 Year 8 Year 9 Year 10
Mn USD (Real)

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)**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Variable range</th>
<th>Gross IRR for IEP</th>
<th>School net cash margin (during repayment)</th>
<th>MFI avg profit / year (US$ '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Weak</td>
<td>Strong</td>
<td>Weak</td>
</tr>
<tr>
<td>School default rate</td>
<td>15%</td>
<td>7%</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>% defaults renegotiated</td>
<td>25%</td>
<td>8%</td>
<td>10%</td>
<td>4%</td>
</tr>
<tr>
<td>Student drop-out rate</td>
<td>5%</td>
<td>9%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>9%</td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>Student default rate</td>
<td>75%</td>
<td>8%</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>25%</td>
<td>9%</td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>Student loan uptake rate</td>
<td>25%</td>
<td>9%</td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>75%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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).
### Debt fund performance benchmarks

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

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

* Returns over 1 year are Annualized

**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

<table>
<thead>
<tr>
<th>Values in Real USD Mn</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition officers (IEP staff)²</td>
<td>0.25</td>
<td>0.25</td>
<td>0.25</td>
<td>0.02</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition costs paid to MFI</td>
<td>0.12</td>
<td>0.12</td>
<td>0.15</td>
<td>0.08</td>
<td>0.11</td>
<td>0.12</td>
<td>0.11</td>
<td>0.08</td>
<td>0.05</td>
<td>0.01</td>
</tr>
<tr>
<td>Loans given out</td>
<td>0.67</td>
<td>2.71</td>
<td>5.00</td>
<td>4.54</td>
<td>2.50</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Compensation paid to MFI</td>
<td>0.01</td>
<td>0.03</td>
<td>0.04</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.06</td>
<td>0.05</td>
<td>0.03</td>
<td>0.01</td>
</tr>
<tr>
<td>Repayments received from schools¹</td>
<td>-</td>
<td>-</td>
<td>1.09</td>
<td>2.71</td>
<td>4.22</td>
<td>4.69</td>
<td>4.36</td>
<td>3.31</td>
<td>1.90</td>
<td>0.58</td>
</tr>
<tr>
<td><strong>Net cash (Operations)</strong></td>
<td>(1.05)</td>
<td>(3.11)</td>
<td>(4.36)</td>
<td>(1.99)</td>
<td>1.55</td>
<td>4.51</td>
<td>4.20</td>
<td>3.19</td>
<td>1.82</td>
<td>0.55</td>
</tr>
<tr>
<td>Capital called</td>
<td>1.14</td>
<td>3.30</td>
<td>4.54</td>
<td>2.03</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Committed capital (pre-mgmt fees &amp; returns)</td>
<td>1.14</td>
<td>4.42</td>
<td>8.87</td>
<td>10.72</td>
<td>10.50</td>
<td>8.95</td>
<td>4.44</td>
<td>0.24</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Management fees³</td>
<td>0.02</td>
<td>0.09</td>
<td>0.18</td>
<td>0.21</td>
<td>0.21</td>
<td>0.18</td>
<td>0.09</td>
<td>0.00</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital returned</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.34</td>
<td>4.33</td>
<td>4.11</td>
<td>3.18</td>
<td>1.82</td>
<td>0.55</td>
</tr>
<tr>
<td>Committed capital (post-mgmt fees &amp; returns)</td>
<td>1.11</td>
<td>4.33</td>
<td>8.69</td>
<td>10.50</td>
<td>8.95</td>
<td>4.44</td>
<td>0.24</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net cash balance at IEP</strong></td>
<td>0.07</td>
<td>0.17</td>
<td>0.17</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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 least US$200K/year.
## IEP costs for Fund 1 (less MFI & acquisition)

### Year 0 preparation: US$200K

<table>
<thead>
<tr>
<th>Activities: Sourcing partners &amp; setting up team</th>
<th>P&amp;L item</th>
<th>Cost (US$/yr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;L item</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 person team @ US$25K/year ea</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>Basic office space &amp; utilities</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Transportation, lodging &amp; misc</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Set-up of website &amp; marketing</td>
<td>65</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Activities: Processing applications &amp; loans</th>
<th>P&amp;L item</th>
<th>Cost (US$/yr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>P&amp;L item</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 analyst to process online apps</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>2 analysts to process loans</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>2 analysts to follow up on EMIs</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Mgmt team of 3 @ US$25K/year</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>Basic office space &amp; utilities</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Transportation, lodging &amp; misc.</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

## Funding needs & sources (’000 US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>IEP costs</th>
<th>Mgmt fee</th>
<th>Balance</th>
<th>Source of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>200</td>
<td>0</td>
<td>200</td>
<td>Donor funds to set-up: $0.5Mn</td>
</tr>
<tr>
<td>1</td>
<td>200</td>
<td>23</td>
<td>177</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>200</td>
<td>88</td>
<td>112</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>200</td>
<td>177</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>200</td>
<td>214</td>
<td>-14</td>
<td>None needed</td>
</tr>
<tr>
<td>5</td>
<td>200</td>
<td>210</td>
<td>-10</td>
<td>Costs covered by subsequent fund</td>
</tr>
<tr>
<td>6</td>
<td>200</td>
<td>179</td>
<td>21</td>
<td>mgmt. fees</td>
</tr>
<tr>
<td>7</td>
<td>200</td>
<td>89</td>
<td>111</td>
<td>Team is shared &amp; workload on</td>
</tr>
<tr>
<td>8</td>
<td>200</td>
<td>5</td>
<td>195</td>
<td>Fund 1 is reduced in Years 6</td>
</tr>
<tr>
<td>9</td>
<td>200</td>
<td>0</td>
<td>200</td>
<td>onwards</td>
</tr>
<tr>
<td>10</td>
<td>200</td>
<td>0</td>
<td>200</td>
<td></td>
</tr>
</tbody>
</table>
## BACKUP: Key risks faced and mitigation measures

<table>
<thead>
<tr>
<th>Credit &amp; reputation risks</th>
<th>Operational risks</th>
<th>Regulatory risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>School defaults</td>
<td>High due diligence costs</td>
<td>Closing of unregistered schools</td>
</tr>
</tbody>
</table>
| - Model robust at 15% school default rates  
  - 3x the default rate of ISFC  
  - Contracts with partner MFIs to collect on delinquent cases | - Online application  
  - IEP’s specialized & standardized DD\(^1\) process  
  - Preferred partner contractors  
  - Outcome-based fees | - Partnering with NISA\(^2\)  
- Lobbying against government action  
- **Collateral required** for unregistered schools  
- Close tracking of registration progress |
| Opaque school quality | Construction delays | Better public school system |
| - Direct payments to contractors  
- Extensive **due diligence** with interviews to validate  
  - Balance sheet  
  - Fee collection  
  - Teaching practices  
  - Demographics | - Model robust at 15% student drop-out rate  
  - Geographical diversification | - **Diversification** geographically to various states  
- Slow moving & predictable risk |
| | High drop-out rate | |
| | Partner fraud | |

1. Due diligence, 2. National independent School Alliance
BACKUP: Loan to schools timeline

- 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

• 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:
  o Parent defaults, student is removed from school, IEP pays MFI (50% chance)
  o Parent repays and MFI keeps the full repayment from parents
BACKUP: What if schools cannot pay?

• Partner MFI goes for debt collection
  o 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
  o If renegotiation fails, & school has collateral: legal action
  o 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?

• 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:
  o First payment made jointly by school & IEP
  o 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