

Thirumeni Finance Private Limited ^{Revised}

December 21, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme	93.90	93.90	[ICRA]BBB (Stable); Revised from [ICRA]BBB- (Positive)
Non Convertible Debenture Programme	USD 0.5 crore [^]	USD 0.5 crore [^]	[ICRA]BBB (Stable); Revised from [ICRA]BBB- (Positive)
Bank facilities	15.80	65.80	[ICRA]BBB (Stable); Revised from [ICRA]BBB- (Positive)
Total	141.75[^]	191.75[^]	

[^]Considering USD / INR at Rs.64.0958

Rating action

ICRA has revised the long-term rating outstanding on the Rs.93.90 crore non-convertible (NCD) debenture programme, the Rs.65.80 crore bank facilities (enhanced from Rs.15.80 crore) and the USD 0.5 crore NCD programme of Thirumeni Finance Private Limited (TFPL or the company)¹ to [ICRA]BBB (pronounced ICRA triple B)² from [ICRA]BBB- (pronounced ICRA triple B minus). The outlook on the rating has been revised to 'Stable' from 'Positive'.

Rationale

The rating revision factors in the sustained profitable growth during H1 FY2018 and the envisaged sizeable capital raise during Q4FY2018. The company is at an advanced stage of raising fresh capital of Rs.200.0 crore, which in ICRA's opinion would support its business growth during FY2019 while maintaining the gearing below 5.0 times. ICRA also expects the company's profitability to inch upwards as the operating efficiencies improve further going forward, with growth in its scale of operations. The rating takes note of TFPL's comfortable asset quality indicators (6-month lagged 90+ days past due [dpd] at 2.2% as on October 31, 2017) and capitalization profile (with managed gearing at 3.0 times as on September 30, 2017). The rating continues to factor in the company's experienced senior management team, its prudent credit appraisal and monitoring systems, which are crucial for the high envisaged portfolio growth at a compounded annual growth rate (CAGR) of about 100% over the period FY2018-FY2020.

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 business development and credit functions. However, ICRA believes that the company would have to further beef up its management team as the portfolio expands going forward. The rating takes cognizance of the measured geographical diversification with Karnataka's share of portfolio moderating to 28% in October 2017 (68% in March 2015). The rating is however constrained by TFPL's moderate scale and limited track record of operations, modest portfolio seasoning, mono-line nature of its business, and the consequent lack of diversification in earnings. ICRA takes note of the steady shift towards secured lending (91% of its portfolio in October 2017 vis a vis 70% in March 2015) by the company; however increase in the share of high ticket size loans (47% of the loans >Rs.50.0 lakh in October 2017 vis a vis 7% in September 2015) indicates a steady increase in the credit concentration risk. ICRA also takes note of the steady increase in the share of loans backed by school property over the recent past, where overdue recoveries, is

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

expected to be difficult through the repossession route. Going forward, TFPL's ability to maintain 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. ICRA takes cognizance of TFPL's high envisaged portfolio growth, which would warrant regular external equity infusion for maintaining a risk-adjusted capital structure. Also, it would be critical for TFPL to improve its funding diversity to secure funding in a timely manner and at competitive rates.

Outlook: Stable

ICRA believes that TFPL would benefit from the recently strengthened management team and the planned capital infusion in the near term which would support its business growth while aiding in maintaining a comfortable capital structure. The outlook may be revised to 'Positive' if TFPL is able to maintain or improve its asset quality and profitability metrics as portfolio expands, while improving its funding profile. The outlook may be revised to 'Negative' if TFPL reports material deterioration in asset quality and earnings or in the event of a weakened capitalisation profile.

Key rating drivers

Credit strengths

Presence in a niche segment and good potential for growth - TFPL is a non-banking finance company (NBFC) engaged in lending to affordable private schools (APS) for construction, renovation and capacity expansion. The borrowers are usually school promoters or correspondents. Being an early entrant with focus on 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 100% over the period FY2018-FY2020, with portfolio crossing about Rs.3,000 crore by March 2020.

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

Prudent appraisal and lending norms along with adequate internal controls & monitoring systems - TFPL has steadily increased the share of secured loans over the last three years (70% of portfolio in March 2015 to 91% in October 2017); however it has been accompanied by increasing share of large ticket loans with 46.7% of its portfolio comprised by loans >Rs.50.0 lakh in October 2017. Nevertheless, TFPL's policy to lend large ticket loans only based on audited financials and to customers with strong banking records mitigates the risks associated with credit concentration to an extent. Increase in the share of school-property backed loans accentuate risks pertaining to difficulty in repossessing the collateral. However, TFPL's expertise in income assessment of educational institutions and the company's initiatives to strengthen its internal controls and monitoring provides comfort. The company has implemented new information technology (IT) systems during H2 FY2018 which would integrate loan origination, collateral management, loan management and collections. With the implementation of new software, the entire process of credit assessment to collections are being integrated and this is expected to improve management information. In addition, the new software would allow productivity management, customer relationship management and training.

Profitability supported by improved operating efficiencies - TFPL's profitability improved during FY2017 (net profitability of 2.3% in FY2017 vis-a-vis 0.2% in FY2016) with portfolio expansion, as operating costs ratio moderated to 5.6% in FY2017 from 6.2% in FY2016 and credit costs remained stable at about 0.9-1%. During H1 FY2018, TFPL's net profitability was stood at 2.1%. ICRA expects the operating efficiencies to improve further going forward with portfolio growth, however credit costs is likely to increase as 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.

Adequate capitalisation, planned infusion in the near term to strengthen capital structure - The company's capitalisation is comfortable with managed gearing at 2.3x as on March 31, 2017 and at 3.0x as on September 30, 2017. TFPL is in advanced stages of raising sizeable capital of about Rs.200.0 crore which in ICRA's opinion would support its business growth during FY2019 while maintaining an adequate capital structure. However, regular capital infusion would be required going forward to fund the proposed medium term growth while maintaining a good risk-adjusted capital profile. Assuming an internal generation of around 12-14% while capping the gearing at about 5 times, TFPL would require incremental capital of around Rs.300-350 crore over the period FY2018-FY2020 to achieve its growth targets.

Credit weaknesses

Moderate scale of current operations; steep portfolio growth envisaged over the period FY2018-FY2020 - Having been operational for about four years, the company's current scale of operations remains moderate with a managed asset base of Rs.530.9 crore as on October 31, 2017. Portfolio is expected to grow at a CAGR of about 100% over the period FY2018-FY2020 to reach about Rs.3,300 crore by March 2020. The company has steadily increased its presence to about 12 states in October 2017 (4 states in March 2015), with top 3 states accounting for about 63% vis a vis about 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, resulting in considerable credit risk - TFPL's presence in the niche segment of lending to affordable private schools, which has a moderate credit profile and with limited access to formal financing channels accentuates credit risk. Further, modest portfolio seasoning in relation to the loan tenor (typically of 5-7 years) and relatively higher ticket size of the loans (with 46.7% of the loans above Rs.50 lakhs as on October 31, 2017) exposes the company to credit concentration risks. Further, increase in the share of school-property backed loans accentuates risk of recoveries from overdue loans owing to the difficulty associated with repossessing the collateral.

Ability to maintain a good asset quality profile as the business expands - With steady business expansion and seasoning of the loan portfolio, TFPL's delinquencies could increase from the current comfortable levels. In order to address the same, the company has initiated efforts to improve its collection and recovery mechanism by setting up a tele-calling team to remind borrowers about their dues. The company has also upgraded its software to ensure real time updation of collections and also uses the services of local collection agencies for recovery of loans over 90 days due. Asset quality is however is comfortable with 90+dpd (lagged by 6 months) at 2.2% as on October 31, 2017. However, TFPL's ability to maintain good asset quality with envisaged portfolio growth would be critical from the credit rating perspective.

Ability to diversify its funding profile, to secure funding at competitive rates and in a timely manner - A large share of the company's borrowings currently is from NBFCs (38% as on October 31, 2017). ICRA notes that TFPL's ability to secure 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 are with an average tenor of about 3-4 years, while the loans have a contractual tenor averaging at about 5-7 years. It is therefore crucial to improve funding diversity and secure longer tenure loans as 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 taken over by the current promoters – Mr. Steve Hardgrave and Mr. Brajesh Mishra – in May 2012 and commenced financing operations in January 2013. As on March 31, 2017, the promoters held 15.0% stake in the company with the balance being held by institutional investors (68.8%), individual investors (11.0%) and employee share ownership trust (5.2%). TFPL offers credit facilities to affordable private schools, for improvement, capacity expansion and growth. The company uses the Varthana brand to establish its identity with the target customer segment. Currently, TFPL operates in 12 states with its head office in Bangalore. As on October 31, 2017, TFPL had a portfolio of Rs. 530.9 crore.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Total Income (Rs. Crore)	24.0	62.6
Profit after Tax (Rs. Crore)	0.3	8.3
Net worth (Rs. Crore)	122.5	137.7
Total Managed Portfolio (Rs. Crore)	173.0	402.1
Total Managed Assets (Rs. Crore)	284.7	464.6
Return on Managed Assets (%)	0.2%	2.2%
Return on Net worth (%)	0.4%	6.3%
Gearing (times)	1.3	2.1
Gross NPA (%)	0.7%	1.5%
Net NPA (%)	0.2%	0.5%
Capital Adequacy Ratio (%)	71.8%	36.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years								
Instru- ment	Type	Amount Rated (Rs. crore)	Amount Outstan- ding (Rs Crore)	FY2018			FY2017		FY2016			FY2015	
				Dec 2017	Jul 2017	Feb 2017	Dec 2016	Jun 2016	Feb 2016	Nov 2015	Jun 2015	Dec 2014	
1	Fund Based	LT	65.80	54.02	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB - (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	NCD	LT	USD 0.2 cr	USD 0.2 cr	[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	USD 0.3 cr	USD 0.3 cr	[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- (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- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)					-
6	NCD	LT	40.00	40.00	[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

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%	30-Nov-2018	2.12	[ICRA]BBB (Stable)
-	Term loan 2	29-Sep-2016	11.43%	28-Sep-2019	3.79	[ICRA]BBB (Stable)
-	Term loan 3	26-Mar-2015	14.75%	26-Mar-2018	0.74	[ICRA]BBB (Stable)
-	Term loan 4	20-Mar-2017	11.75%	31-Mar-2020	12.79	[ICRA]BBB (Stable)
-	Term loan 5	26-Sep-2017	10.35%	28-Sep-2020	15.00	[ICRA]BBB (Stable)
-	Term loan 6	26-Sep-2017	10.30%	26-Oct-2020	5.00	[ICRA]BBB (Stable)
-	Term loan 7	01-Sep-2017	10.10%	7-Sep-2020	14.58	[ICRA]BBB (Stable)
-	Proposed limits	-	-	-	11.78	[ICRA]BBB (Stable)
INE125T07014	NCD	09-Jul-2015	14.60%	5-Nov-2019	USD 0.20 cr	[ICRA]BBB (Stable)
INE125T07022	NCD	14-Dec-2015	14.30%	14-Dec-2018	USD 0.30 cr	[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

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