



Banker to schools
March 2, 2010

How do you help a bunch of high-performing schools expand their footprint to reach out to more students? Lend them funds. And, make money at the same time? Welcome to impact investing, ISFC-style. Its lending business with tight focus on funding schools in Hyderabad is flourishing.

By providing easy-to-access funds at competitive interest rates, Indian School Finance Company helps schools grow and provide a better quality of education to students. If basic lending criteria are met, ISFC infrastructure loans can be used for computer labs, teacher training, furniture and building more classrooms—all typically for small schools that charge monthly fees ranging from Rs 250 to Rs 600.

Thrown in free is a good deal of flexibility. Ask Indira Kilaru, Founder of "Veda, The School", the first borrower from ISFC. When permission from the state education department to have Veda's students directly appear for Class X exams got delayed, it had to lower its enrollments for the subsequent batch. "They stood by me and even rescheduled the repayment period for my Rs 12 lakh loan from three years to four years," says Kilaru. In the meantime, the school has doubled its classrooms.

David Kyle, the CEO of ISFC, and other company officials were not available for this story but those who have dealt with the lender say school borrowers, besides meeting credit and collateral requirements on average loans of Rs 12 lakh, are required to be able to demonstrate project management skills needed to use and repay borrowed loan capital effectively. "Kyle uses senior school pass percentages as a proxy for quality of a school. If that is good, there will be demand for that school. If there is demand, adding infrastructure will generate cash flows to meet debt servicing requirements," says Ashish Karamchandani, Founder, Monitor Inclusive Markets, and Partner, Monitor Group.

Indian School Finance Co.

FOUNDER: Gray Ghost Ventures, Atlanta, US.

INNOVATION: Offer schools small loans (average: Rs 12 lakh) to expand infrastructure and enrollments.

MODEL: Focus on borrowers with good senior school results (a proxy for quality education) and the ability to turn new demand into healthy cash flows.

Other experts say ISFC is hitting a sweet spot. "It is a good idea to have some way of financing private social service because (ISFC represents) an intervention in a space where the state has fared poorly and most mainstream market players are not willing to enter," says Vijay Mahajan, Founder and CEO of BASIX. Mahajan's words could be prophetic—he is one of the pioneers of India's microfinance industry, now a multibillion business.

URL for this article :

[http://businesstoday.intoday.in /content_mail.php?option=com_content&name=print&id= 14158](http://businesstoday.intoday.in/content_mail.php?option=com_content&name=print&id=14158)

@ Copyright 2008 India Today Group.