

November 17, 2021

Indian School Finance Company Private Limited: Rating confirmed as final for PTCs backed by school finance loan receivables securitisation transaction

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
REMINGTON 09 2021	PTC Series A1	7.32	[ICRA]BBB(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-1

Rationale

In October 2021, ICRA had assigned Provisional [ICRA]BBB(SO) rating to pass-through certificate (PTCs) Series A1 issued by REMINGTON 09 2021. The PTCs are backed by receivables worth a Rs. 11.66-crore pool of school finance loans (underlying pool principal of Rs. 8.61 crore) originated by Indian School Finance Company Private Limited (ISFC). Since the executed transaction documents are in line with the rating conditions, and the legal opinion for the transaction have been provided to ICRA, the said ratings have now been confirmed as final.

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of principal subordination, excess interest spread (EIS) and cash collateral (CC)
- No overdue contracts in the pool as on the cut-off date
- Moderate average seasoning and pre-securitisation amortisation

Credit challenges

- High obligor concentration in the pool with top ten obligors contributing to ~49% of the pool principal amount
- High geographical concentration with top three states contributing to ~60% of the pool principal amount
- Moderate credit quality of the underlying borrowers
- Performance of the pool would be exposed to any disruptions being caused by the second wave of Covid-19 pandemic

Description of key rating drivers highlighted above

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payment to PTC Series A1 at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A1 is promised on the last payout date. During the tenure of PTC Series A1, the collections from the pool, after making the promised interest payouts, will be used to make the expected principal payouts to PTC Series A1 (to the extent of 100% of the pool principal billed). This principal payout is not promised and any shortfall in making the expected principal payment to PTC Series A1 would be carried forward to the subsequent payout. Further, collections in excess of the promised and expected payouts to PTC Series A1 on a monthly basis will be used for prepaying the principal amount due on PTC Series A1.

The first line of support for PTC Series A1 in the transaction is in the form of over-collateralisation (i.e. subordination) of 15.0% of the pool principal. Further credit support is available in the form of an EIS and a CC of 5.0% of the initial pool principal (i.e.

Rs. 0.43 crore) to be provided by ISFC. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the shortfall.

There are no overdues in the pool as on the cut-off date. The weighted average seasoning of the pool is high at 34.5 months. The pool is concentrated with top ten obligors in pool contributing to 48.5% of pool principal. The pool has a high geographical concentration with top three states accounting for 60.3% of the overall pool principal. Also, the loans which are a part of the pool have been given to schools which are likely to have moderate credit quality. Further, the performance of the pool would be exposed to any disruptions being caused by the second wave of Covid-19 pandemic.

Past rated pool performance: ICRA has rated 12 securitisation transactions with the underlying receivables originated by ISFC. The live pools have reported a cumulative collection efficiency of more than 88% as of October 2021 payout and a loss-cum-180+ dpd in the range of below 10.5% with no CC utilisation. Recently rated pools have shown weaker performance in the initial months as some borrowers delayed payments and these pools have high obligor concentration.

Key rating assumptions

ICRA's cash flow modelling for ABS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. Taking into account the high obligor concentration and the profile of the borrowers in the current pool, ICRA has modelled the transaction as a CDO (i.e. at a contract level for all obligors) with an implied probability of default (PD) and loss given default (LGD). The PD is commensurate with non-investment grade rating view on the obligors and the balance tenure of the loans extended. The LGD has been assumed after taking into account the nature and value of the underlying collateral. Additionally, a minimum level of base correlation has been assumed among the borrowers, with a further add-on correlation for borrowers belonging to same geography/collateral type. Upon analysis of the loan cashflows after taking account the various above-mentioned factors, ICRA estimates the weighted average loss to be 7.00% - 9.00%, with certain variability around it. Given the concentrated nature of this pool, the variability in performance that can be expected from such a pool of loans is also high. The prepayment rate for the underlying pool is estimated to be at 18.0% per annum.

Liquidity position: Adequate

The principal amount on the rated PTCs is promised on the scheduled maturity date. Only the interest amount is promised on a monthly basis. Additionally, there is CC available in the transaction amounting to 5.00% of the initial pool principal amount. The CC is adequate to cover promised interest payouts due for three months to the PTC Series A1 investors even in an unlikely scenario of no collections in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the basis of amortisation of the loan facilities leading to a build-up of the credit enhancement cover over the future payments (assuming no reset has been exercised in due course)

Negative factors – Any deterioration in the credit quality of the underlying entities could lead to pressure on the rating.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA Rating Methodology for Collateralised Debt Obligations
Parent/Group Support	Not Applicable

Consolidation/Standalone	Not Applicable
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About the company

Hyderabad-based Indian School Finance Company Private Limited (ISFC) is a non-banking financial company (NBFC) providing credit facilities to affordable private schools (APS), colleges, coaching centres, vocational colleges and play schools for infrastructure improvement, capacity expansion and growth. The company operates in 15 states/UTs across the country including Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Delhi, Uttar Pradesh, Uttarakhand, Odisha, Punjab, Gujarat, Haryana and Jharkhand, at present. ISFC was incorporated in May 1994, as a public limited company, under the name Corporate Deposits Investments Limited. Gray Ghost Ventures (GGV) acquired the NBFC in October 2008 and commenced operations by providing loans to the APS segment.

In FY2021, ISFC reported a net loss of Rs. 17.0 crore on a total managed portfolio of Rs. 337.1 crore as on March 31, 2021 compared to a net profit Rs. 4.4 crore on a total managed portfolio of Rs. 389.1 crore as on March 31, 2020. In Q1FY2022, the company reported a loss of Rs. 9.6 crore on a managed portfolio of Rs. 313.8 crore as on June 30, 2021. As on June 30, 2021, ISFC's gross stage 3% and net stage 3% stood at 17.4% and 11.0%, respectively, while the net worth stood at Rs. 106.0 crore. ICRA has an outstanding rating of [ICRA]BB+ (Stable) for the NCD programme of ISFC.

Key financial indicators

	FY2020	FY2021	Q1 FY2022
	Audited	Audited	Provisional
	Ind-AS	Ind-AS	Ind-AS
Interest Income (Rs. crore)	91.3	63.0	11.6
Profit after tax (Rs. crore)	4.4	-17.0	-9.6
AUM (Rs. crore)	389.1	337.1	313.8
Gross stage 3 (%)	9.6%	13.0%	17.4%
Net stage 3 (%)	6.4%	6.9%	11.0%

Source: ISFC, ICRA Research; All ratios as per ICRA calculations;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					November 17, 2021	October 08, 2021			
1	REMINGTON 09 2021	PTC Series A1	7.32	7.32	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating and Outlook
REMINGTON 09 2021	PTC Series A1	October 2021	13.25%	May 2026	7.32	[ICRA]BBB(SO)

**Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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