

December 21, 2021

Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited): Ratings reaffirmed for PTCs issued under two school finance receivable securitisation transactions

Summary of rating action

Trust Name^	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Nov-21 Payout (Rs. crore)	Rating Action
Northern Arc 2018 SBL Sombrero	PTC Series A2	21.85	11.22	6.23	[ICRA]A(SO); Reaffirmed
Northern Arc 2019 SBL Chandler	PTC Series A1	28.89	17.05	6.47	[ICRA]AA(SO); Reaffirmed
	PTC Series A2	6.47	6.47	6.47	[ICRA]A(SO); Reaffirmed
	PTC Series A3	3.45	3.45	3.45	[ICRA]BBB+(SO); Reaffirmed

^ The trusts are referred as Sombrero and Chandler in this release

*Instrument details are provided in Annexure-1

Rationale

The pass-through certificates (PTCs) originated by Varthana Finance Private Limited (VFPL) are backed by school finance receivables. The ratings reaffirmation is on account of the moderate to high amortisation in the transactions, which has led to the build-up of the credit enhancement cover over the future PTC payouts. The breakeven collection efficiency for the pools is comfortable compared to the actual collection level observed in the pools. The ratings, however, remain constrained by the credit profile of the servicer (VFPL).

A summary of the performance of the pools after the November 2021 payouts is provided below.

Parameter	Sombrero	Chandler
Months post securitisation	34	23
Pool amortisation (%)	71.88%	47.52%
PTC amortisation		
- PTC A1	100.00%	77.59%
- PTC A2	71.48%	0.00%
- PTC A3	--	0.00%
Cumulative collection efficiency (%) ¹	95.30%	95.50%
Loss-cum-30+ (% of initial pool principal) ²	6.37%	12.15%
Loss-cum-90+ (% of initial pool principal) ³	2.43%	4.72%
Breakeven collection efficiency		
- PTC A1	Matured	15.67%
- PTC A2	22.89%	38.87%
- PTC A3	NA	52.55%
Cumulative cash collateral (CC) utilisation	0.00%	0.00%
CC available (as % of balance pool)	14.22%	7.58%

¹ Cumulative collections / (Cumulative billings + Opening overdue at the time of securitisation)

² Unbilled and overdue principal portion of contracts delinquent for more than 30 days, as a % of initial pool principal

³ Unbilled and overdue principal portion of contracts delinquent for more than 90 days, as a % of initial pool principal

Parameter	Sombrero	Chandler
Excess interest spread (EIS) (as % of balance pool) ⁴		
- PTC A1	Matured	41.13%
- PTC A2	35.89%	36.49%
- PTC A3	NA	32.15%
Principal subordination (as % of balance pool) ⁵		
- PTC A1	Matured	71.54%
- PTC A2	57.41%	43.11%
- PTC A3	NA	27.94%

Key rating drivers

Credit strengths

- Moderate to high amortisation of PTCs, resulting in build-up of cash collateral (CC), principal subordination and excess interest spread cover available for balance PTC payouts
- Cumulative collection efficiency for the pool has been in excess of 95%.
- No cash collateral utilization in the pool till Nov-21 payout month

Credit challenges

- Moderate obligor concentration in the balance pools
- High delinquency in softer buckets
- Performance of the pool would be exposed to any prolonged economic slowdown being caused by Covid-19 pandemic

Description of key rating drivers highlighted above

The collections in the past have shown a cyclical trend with the same being higher in quarter-end months and lower in the subsequent month. Collections were impacted in Q1 FY2022 on account of the second wave of the pandemic but improved in Q2 FY2022. However, on an overall basis, the cumulative collection efficiency has been good at ~95% for both pools after the November 2021 payouts. Due to the volatility in collections, the delinquency levels of the pools also increased. The loss-cum-90+ for the Sombrero pool peaked at 9.7% in the June 2021 payout month while it peaked at 5.2% for the Chandler pool in the August 2021 payout month. However, with increased collections, the 90+ for the pools has moderated to 2.4% and 4.7%, respectively. There has been no instance of CC utilisation till date in the pools. The obligor concentration of the pools has increased with amortisation. The top 5 obligors after the November 2021 payouts stood at ~32% and ~18% for the Sombrero and Chandler pool, respectively. This was initially ~16% and ~13%, respectively.

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the ratings in the transactions. The ratings have been capped, given the weak credit profile of the servicer. ICRA will continue to closely monitor the performance of these transactions. Any further rating action will be based on the performance of the pools and the availability of credit enhancement relative to ICRA's expectations. The performance of the pools remains exposed to any prolonged economic slowdown caused by the pandemic.

Key rating assumptions

ICRA's cash flow modelling for the surveillance of asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the past performance of the originator's portfolio and the rated pools as well as the performance and characteristics of the specific

⁴ (Pool interest – PTC Interest) / Pool principal outstanding

⁵ (Pool principal outstanding – PTC principal outstanding) / Pool principal outstanding

pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

Liquidity position: Strong for PTC Series A2 of Sombrero and PTC Series A1 and PTC Series A2 of Chandler; adequate for PTC Series A3 for Chandler

As per the transaction structure, only the interest amount is promised to the PTC holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pools and the available credit enhancement are expected to be comfortable to meet the promised payouts to PTC investors. The interest payouts are promised to the subordinate tranches only after maturity of senior tranche.

Rating sensitivities

Positive factors – A rating upgrade for the pools could occur on the sustained strong collection performance of the underlying pool contracts, leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the credit enhancement along with no sharp deterioration in VFPL's credit profile.

Negative factors – A rating downgrade for the pools could occur on the sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and credit enhancement utilisation levels, and a sharp deterioration in VFPL's credit profile.

Analytical approach

The rating action is based on the analysis of the performance of VFPL's portfolio till September 2021, the key characteristics and composition of the current pools, the performance expected over the balance tenure of the pools, and the credit enhancement cover available in the transactions.

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

VFPL is a non-deposit taking non-banking financial company (NBFC), incorporated in Cochin (Kerala) in June 1984. It was acquired 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, 2021, the promoters held a 10.6% stake in the company with the balance held by institutional investors (83.5%), individual investors (2.4%) and an employee share ownership trust (3.4%). VFPL offers credit facilities to private schools, including affordable private schools, for improvement, capacity expansion and growth. It operates in 15 states including Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Odisha, Rajasthan and Chhattisgarh, with its head office in Bengaluru. As on September 30, 2021, VFPL had a loan book of Rs. 1,025.2 crore.

Key financial indicators (Ind-AS)

	FY2020	FY2021	H1 FY2022*
Total income (Rs. crore)	227.4	211.6	95.9
PAT (Rs. crore)	15.3	-7.7	0.2
Total assets (Rs. crore)	1,225.9	1,164.4	1,107.7
Gross stage 3 (%)	7.1%	2.9%	10.3%
Net stage 3 (%)	4.3%	1.5%	7.2%

Source: Company, ICRA Research; * Provisional numbers; 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	
								Dec 21, 2021	Dec 24, 2020
1	Northern Arc 2018 SBL Sombrero	PTC Series A2	21.85	6.23	[ICRA]A(SO)	[ICRA]A(SO)	[ICRA]A(SO)	Mar 07, 2019	Jan 07, 2019*
								[ICRA]A(SO)	Provisional [ICRA]A(SO)

*Initial rating assigned

	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		
							Dec 21, 2021	Dec 24, 2020	
2	Northern Arc 2019 SBL Chandler	PTC Series A1	28.89	6.47	[ICRA]AA(SO)	[ICRA]AA(SO)	[ICRA]AA(SO)	Feb 13, 2020	Jan 06, 2020*
		PTC Series A2	6.47	6.47	[ICRA]A(SO)	[ICRA]A(SO)	[ICRA]A(SO)	[ICRA]A(SO)	Provisional [ICRA]A(SO)
		PTC Series A3	3.45	3.45	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	Provisional [ICRA]BBB+(SO)

*Initial rating assigned

Complexity level of the rated instruments

Trust name	Instrument	Complexity Indicator
Northern Arc 2018 SBL Sombrero	PTC Series A2	Moderately Complex
Northern Arc 2019 SBL Chandler	PTC Series A1	Moderately Complex
	PTC Series A2	Moderately Complex
	PTC Series A3	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.ins

Annexure-1: Instrument details

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2018 SBL Sombrero	PTC Series A2	January 2019	13.16%	April 2025	6.23	[ICRA]A(SO)
Northern Arc 2019 SBL Chandler	PTC Series A1	December 2019	10.65%	March 2027	6.47	[ICRA]AA(SO)
	PTC Series A2		12.00%		6.47	[ICRA]A(SO)
	PTC Series A3		13.60%		3.45	[ICRA]BBB+(SO)

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

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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