

February 03, 2022

Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited): Provisional [ICRA]BBB(SO) assigned to PTC Series A1 backed by school finance loans issued by Olivia 12 2021

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
Olivia 12 2021	PTC Series A1	9.03	Provisional [ICRA]BBB(SO); Assigned

*Instrument details are provided in Annexure-1

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Varthana Finance Private Limited Limited (VFPL/Originator; rated [ICRA]BBB(Negative)). The PTCs are backed by receivables from a Rs. 10.03-crore (principal amount; receivables of Rs. 13.99 crore) pool of school finance loans.

The provisional rating is based on the strength of the cash flows from the selected pool of contracts and the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 6.00% of the pool principal to be provided by the Originator, (ii) subordination of 10.00% of the pool principal for the Series A1 PTCs, and (iii) subordination of the entire excess interest spread (EIS) in the structure. The provisional rating is also based on the integrity of the legal structure. The rating is subject to the fulfilment of all the conditions under the structure and the review of documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of CE in the form of EIS, subordination and CC
- No overdue contracts in the pool as on the cut-off date
- High average seasoning of ~34 months

Credit challenges

- High obligor concentration in the pool with top ten obligors contributing to ~53%
- High geographical concentration with top three states contributing to ~ 56%
- Moderate credit quality of the underlying borrowers
- Performance of the pool will be exposed to any fresh disruptions being caused by the Covid-19 pandemic

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A1 on a monthly basis will comprise the interest at the predetermined yield on the

outstanding PTC principal on each payout date and the entire principal on the final maturity date. The pool amortisation schedule is subject to modification on account of prepayments. On each payout date, collections from the pool, after meeting the promised interest payouts to PTC Series A1, will be paid out to meet the expected Series A1 PTC principal amortisation (to the extent of 100% of pool principal billing).

The first line of support for PTC Series A1 in the transaction is in the form of a subordination of 10.00% of the pool principal. Additionally, the EIS available in the structure will provide CE support to the transaction. The EIS will flow back to the Originator after the promised and expected payouts to the PTCs have been made every month. A CC of 6.00% of the initial pool principal to be provided by VFPL acts as further CE in the transaction. 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 pool consists of loans that are high seasoned with a weighted average seasoning of 34.21 months. The pool is concentrated with top ten obligors in pool contributing to 52.91% of pool principal. The geographical concentration of the loan contracts in the current pool is high with the top 3 states constituting 56.21% of the 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. Nonetheless, the performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic.

Performance of past rated pools: ICRA has rated four pools originated by VFPL, which are backed by school finance loans. The performance of the two live pools has been good till date with the cumulative collection efficiency exceeding 94% as of the December 2021 payout. The pools have seen moderate to high amortisation till the December 2021 payout month, resulting in build-up in the CE for the balance PTC payouts. No CC has been utilised till date.

Key rating assumptions

ICRA's cash flow modelling for asset-backed securitisation (ABS) transactions involves the simulation of the 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 collateralised debt obligation (CDO; i.e. at the contract level for all obligors) with an implied probability of default (PD) and loss given default (LGD). The PD is commensurate with the non-investment grade rating view on the obligors and the balance tenure of the loans extended. The LGD has been assumed after factoring in 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 the same geography/collateral type.

Upon the analysis of the loan cash flows after taking into account the above-mentioned factors, ICRA estimates the weighted average loss at 8.00-10.00%, with certain variability around it. Given the concentrated nature of the pool, the variability in performance that can be expected from such a pool of loans is also high.

Liquidity position: Adequate

As per the transaction structure, only the interest amount is promised to the PTC Series A1 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. The cash flows from the pool and the available credit enhancement are expected to be adequate to meet the promised payouts to PTC investors.

Rating sensitivities

Positive factors – The rating could be upgraded based on amortisation of the loan facilities leading to a build-up of the CE cover over the future payments.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool, leading to higher-than-expected delinquency levels and CE utilisation levels.

Analytical approach

The rating action is based on the analysis of the performance of VFPL’s portfolio till December 2021, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE cover available in the transaction.

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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into a final rating upon the execution of:

1. Trust deed
2. Assignment agreement
3. Legal opinion
4. Trustee letter
5. Auditor’s certificate
6. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at www.icra.in.

About the company

VFPL is a non-deposit taking 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%). Varthana 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, Varthana had a loan book of Rs. 1,025.2 crore.

ICRA has a rating outstanding of [ICRA]BBB(Negative) on the NCD programme and the long-term bank lines of VFPL.

Key financial indicators (audited)

Varthana Finance Private Limited	FY2020	FY2021	H1 FY2022*
Total Income	227.4	211.6	95.9
Profit after Tax	15.3	-7.7	0.2
Total Assets	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%

Amount in Rs. crore

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 name	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Feb 03, 2022	-	-	-
1 Olivia 12 2021	PTC Series A1	9.03	9.03	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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Olivia 12 2021	PTC Series A1	January 2022	12.25%	October 2026	9.03	Provisional [ICRA]BBB(SO)

* Scheduled maturity date at transaction initiation; may change on account of prepayments

Source: Company

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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