

July 28, 2022

Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited): Rating upgraded for PTCs issued under one school finance receivable securitisation transaction

Summary of rating action

Trust Name [^]	Instrument [*]	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Amount O/s after Jul-22 Payout (Rs. crore)	Rating Action
Northern Arc 2018 SBL Sombrero	PTC Series A2	21.85	6.23	1.94	[ICRA]AA+(SO); Upgraded from [ICRA]A(SO)

[^] The trust is referred as Sombrero in this release

^{*} Instrument details are provided in Annexure-1

Rationale

The pass-through certificates (PTCs) originated by Varthana Finance Private Limited (VFPL) (rated [ICRA]BBB(Negative)) are backed by school finance receivables. The rating upgrade takes into account significant amortisation of the pool, which has led to the cash collateral (CC) entirely covering the future PTC payouts. The breakeven collection efficiency is nil compared to the actual collection level observed in the pool.

A summary of the performance of the pools after the July 2022 payouts is provided below.

Parameter	Sombrero
Months post securitisation	42
Pool amortisation (%)	79.18%
PTC Series A2 amortisation	91.12%
Cumulative collection efficiency (%) ¹	94.49%
Loss-cum-30+ (% of initial pool principal) ²	8.83%
Loss-cum-90+ (% of initial pool principal) ³	2.93%
Average monthly prepayment rate	1.51%
Breakeven collection efficiency for PTC Series A2	0.00%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	19.22%
Excess interest spread (EIS) (as % of balance pool) ⁴ for PTC Series A2	36.53%
Principal subordination (as % of balance pool) ⁵ for PTC Series A2	82.09%

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

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

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

Key rating drivers

Credit strengths

- Significant amortisation of pool resulting in CC fully covering the future PTC payouts
- Moderately healthy collection efficiency exhibited by the pool

Credit challenges

- Not Applicable

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. Also the collections have also been impacted by the closure of schools on account of the pandemic and the collections have followed the trend of collection of fees in schools basis the academic year. Collections were impacted in Q1 FY2022 touching a low of 57.5% in May-21 collection month on account of the second wave of the pandemic but improved post Jun-21. The collection efficiency had peaked in March 2022 on account of resumption of school operations leading to rapid improvement in delinquencies. While there was a dip in monthly collection efficiency to below 80% in Apr-22 and May-22 the monthly collection efficiency in Jun-22 bounced back to over 100%. The loss cum 90+ dpd has followed a similar trend to collections and peaked at 9.69% during the second wave and shown a declining trend since. There has been no instance of CC utilisation till date in the pool. Due to high amortisation of the pool the CC fully covers the balance PTC payouts.

Overall, the credit enhancement available for meeting the balance payouts to the investor is sufficient to upgrade the rating for the PTCs. ICRA will continue to closely monitor the performance of these transaction. Any further rating action will be based on the performance of the pool and the availability of credit enhancement relative to ICRA's expectations.

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 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: Superior

The liquidity of the rated transaction is expected to be superior as the CC covers the future payouts entirely.

Rating sensitivities

Positive/Negative factors – Ratings are unlikely to be revised for the transaction as the CC is fully covering the future PTC payouts.

Analytical approach

The rating action is based on the performance of the pool till July 2022 (payout month), the present delinquency profile of the pool of contracts, the performance expected over the balance pool tenure, and the credit enhancement available in the transaction.

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

About the company

Varthana Finance Private Limited (Varthana) is a non-deposit taking non-banking financial company, 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 September 31, 2021, the promoters held an 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 16 states including top three states of Karnataka, Maharashtra and Tamil Nadu with its head office in Bengaluru. As on March 31, 2022 Varthana had a loan book of Rs. 957 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	FY2022
Total Income	227.4	211.6	190.7
Profit after Tax	15.3	-7.7	2.5
Total Assets	1,225.9	1,164.4	957.8
% Gross Stage 3	7.1%	2.9%	12.0%
% Net Stage 3	4.3%	1.5%	5.5%

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

Sr. No.	Trust Name	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jul 28, 2022			
1	Northern Arc 2018 SBL Sombro	PTC Series A2	21.85	1.94	[ICRA]AA+(SO)	[ICRA]A(SO)	[ICRA]A(SO)	[ICRA]A(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

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
Northern Arc 2018 SBL Sombrero	PTC Series A2	January 2019	13.16%	April 2025	1.94	[ICRA]AA+(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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About ICRA Limited:

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