

November 30, 2022

Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited): Rating confirmed as final for PTCs backed by school finance loan receivables issued by Shiksha 07 2022

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Shiksha 07 2022	PTC Series A1	23.22	[ICRA]A-(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure-I

Rationale

In October 2022, ICRA had assigned a Provisional [ICRA]A-(SO) rating to PTC Series A1 issued by Shiksha 07 2022. The pass-through certificates (PTCs) are backed by a pool of Rs. 37.27-crore school finance loan receivables (underlying pool principal of Rs. 25.80 crore) originated by Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited) (VFPL/Originator; rated [ICRA]BBB-(Stable)). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

A summary of the performance of the pool after the October 2022 payout month has been provided below.

Parameter	Shiksha 07 2022
Months post securitisation	2
Pool amortisation	7.65%
PTC Series A1 amortisation	11.14%
Cumulative collection efficiency	96.63%
Loss-cum-0+ dpd	3.51%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative prepayment rate	4.23%
Cumulative cash collateral (CC) utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of Excess Interest Spread, subordination and cash collateral
- No overdue contracts in the pool as on the cut-off date
- High average seasoning of ~39 months as on the cut-off date

Credit challenges

- Higher share of longer tenure contracts in pool
- Stress in asset quality with elevated delinquency levels and moderate share of restructured book
- Performance of the pool would 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 have been assigned at par to the PTC investors. The promised cash flow schedule for PTC Series A1 on a monthly basis comprises 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 of 31.69% is available in the structure will provide CE support to the transaction. The EIS will be used every month to amortise PTC Series A1. A CC of 5.00% of the initial pool principal is 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 highly seasoned with a weighted average seasoning of ~39 months. The pool is moderately concentrated with the top 10 obligors contributing 23% to the pool principal. The geographical concentration of the loan contracts in the current pool is high with the top 3 states constituting 36% of the pool principal. Also, the loans in the pool have been given to schools, which are likely to have moderate credit quality. The performance of the pool would remain exposed to any fresh disruptions that may arise on account of the pandemic.

Past rated pools performance: ICRA has rated six pools originated by VFPL, which are backed by school finance loans. The performance of the live pools has been modest till date with the cumulative collection efficiency exceeding 94% and nil CC utilisation as of the October 2022 payout.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the 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 performance of the originator's portfolio as well as the 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.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.50-5.50% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

Liquidity position: Strong for PTC Series A1

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 comfortable to meet the promised payouts to PTC investors.

Rating sensitivities

Positive factors – The sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and an increase in the cover available for future investor payouts from the credit enhancement would result in a rating upgrade.

Negative factors – The sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency <90%), leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a rating downgrade.

Analytical approach

The rating actions are 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	Rating Methodology for Securitisation Transactions
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Varthana Finance Private Limited (erstwhile Thirumeni 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-(Stable) on the NCD programme and the long-term bank lines of VFPL.

Key financial indicators

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; All ratios as per ICRA calculations; Amounts in Rs. Crore;

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	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 30, 2022	Oct 03, 2022*			
1	Shiksha 07 2022	PTC Series A1	23.22	23.22	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	-	-	-

*Initial rating assigned

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: [Click Here](#)

Annexure-I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Shiksha 07 2022	PTC Series A1	September 2022	11.25%	September 2029	23.22	[ICRA]A-(SO)

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

Source: Company

Annexure-II: 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.

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