

December 19, 2022

Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited): Ratings reaffirmed 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 as on Nov-22 payout (Rs. crore)	Rating Action
Northern Arc 2019 SBL Chandler	PTC Series A2	6.47	6.47	3.28	[ICRA]A(SO); Reaffirmed
	PTC Series A3	3.45	3.45	3.45	[ICRA]BBB+(SO); Reaffirmed

^ The trust is referred as Chandler 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-(Stable)) are backed by school finance receivables. While the pool has undergone healthy amortisation, which has led to the build-up of the credit enhancement cover, the rating has been reaffirmed due to the moderate obligor concentration in the balance pool, volatility in collections and delinquency levels in past in the pool, weaker asset quality demonstrated by the asset class and the credit profile of the servicer (Varthana). The pool has exhibited moderate delinquency levels with volatility in delinquencies on account of the high obligor concentration with the pool's performance also driven by these contracts. Further, the breakeven collection efficiency is comfortable compared to the actual collection levels observed in the pool.

A summary of the performance of the pool after the November 2022 payouts is provided below.

Parameter	Chandler
Months post securitisation	35
Pool amortisation (%)	71.55%
PTC Series A1 amortisation	100.00%
PTC Series A2 amortisation	49.22%
PTC Series A3 amortisation	0.00%
Cumulative collection efficiency (%) ¹	93.96%
Loss-cum-30+ (% of initial pool principal) ²	9.79%
Loss-cum-90+ (% of initial pool principal) ³	3.42%
Average monthly prepayment rate	1.11%
Breakeven collection efficiency for PTC Series A2	10.39%
Breakeven collection efficiency for PTC Series A3	34.12%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	14.06%
Excess interest spread (EIS) (as % of balance pool) ⁴ for PTC Series A2	29.55%
Excess interest spread (EIS) (as % of balance pool) ⁴ for PTC Series A3	26.73%

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

Parameter	Chandler
Principal subordination (as % of balance pool) ⁵ for PTC Series A2	73.23%
Principal subordination (as % of balance pool) ⁵ for PTC Series A3	45.12%

Key rating drivers

Credit strengths

- Healthy amortization of pool resulting in build up of Cash Collateral (CC), Principal subordination and Excess Interest Spread cover available for the balance PTC payouts;

Credit challenges

- Moderate obligor concentration in the balance pool
- Performance of the pool would remain exposed to macro-economic shocks / business disruptions, if any.

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 monthly collection efficiency had crossed 100% in March 2022 on account of resumption of school operations leading to rapid improvement in delinquencies and recovery from overdue contracts. While there was a dip in monthly collection efficiency to below 80% in Apr-22 and May-22, the monthly collection efficiency in Jun and Jul-22 bounced back to over 100% due to reopening of schools. 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 only the interest being promised on a monthly basis for PTC Series A2. The top 10 obligors in the pool constitute 35% of the balance pool principal; thus, the performance of the pool is sensitive to the performance of these large contracts. The pool's performance would remain exposed to macro-economic shocks/business disruptions.

Overall, the credit enhancement available for meeting the balance payouts to the investor is sufficient to reaffirm 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.

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 analysis 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 the coefficient of variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio and 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.

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

Liquidity position: Strong for PTC Series A2 and Adequate for PTC Series A3

As per the transaction structure, only the interest amount is promised to the PTC Series A2 holders on a monthly basis while the principal amount is promised on the scheduled maturity date of the transaction. After PTC Series A2 is fully paid, the interest amount is promised to the PTC Series A3 holders on a monthly basis and the principal amount is promised on the scheduled maturity date of the transaction. The collections from the pool and the available credit enhancement are expected to be comfortable to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – The ratings are likely to be upgraded once the CC fully covers the future PTC payouts.

Negative factors – The sustained weak collection performance of the underlying pool leading to higher-than-expected delinquency levels and higher credit enhancement utilisation levels, would result in a ratings downgrade.

Analytical approach

The rating action is based on the performance of the pool till November 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 September 30, 2022 Varthana had a loan book of Rs. 904 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 (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	
					Dec 19, 2022	Dec 21, 2021	Dec 24, 2020	Feb 13, 2020	Jan 06, 2020*
1	Northern Arc 2019 SBL Chandler	PTC Series A2	6.47	3.28	[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 2019 SBL Chandler	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: [Click Here](#)

Annexure-I: Instrument details

Trust Name	Instrument Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Northern Arc 2019 SBL Chandler	PTC Series A2	December 2019	12.00%	March 2027	3.28	[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 pool

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.

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