

April 27, 2023

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 as on Mar-23 payout (Rs. crore)	Rating Action
Olivia 12 2021	PTC Series A1	9.03	NA	3.56	[ICRA]BBB+ (SO); Upgraded from [ICRA]BBB(SO)

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

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

Rationale

The pass-through certificates (PTCs) are backed by a pool of school finance receivables originated by Varthana Finance Private Limited (VFPL) (rated [ICRA]BBB-(Stable)). The rating upgrade is on account of the healthy amortisation of the pool, which has led to the build-up of the credit enhancement (CE) cover over the future PTC payouts in the transaction. While the pool has exhibited low delinquency levels; some volatility in delinquencies and collections has been seen on account of the high obligor concentration in the balance pool. Further, the breakeven collection efficiency (BECC) is comfortable compared to the actual collection levels observed in the pool.

A summary of the performance of the pool after the March 2023 payouts is provided below.

Parameter	Olivia
Months post securitisation	14
Pool amortisation (%)	55.84%
PTC Series A1 amortisation	60.51%
Cumulative collection efficiency (%) ¹	94.83%
Loss-cum-30+ (% of initial pool principal) ²	0.00%
Loss-cum-90+ (% of initial pool principal) ³	0.00%
Average monthly prepayment rate	2.66%
Breakeven collection efficiency (BECC) for PTC Series A1	58.50%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	13.59%
Excess interest spread (EIS) (as % of balance pool) ⁴ for PTC Series A1	19.52%
Principal subordination (as % of balance pool) ⁵ for PTC Series A1	19.53%

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

- 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;
- Low delinquency levels observed throughout with healthy collection efficiency

Credit challenges

- High 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 pool had shown healthy collections for most months with cumulative collection efficiency of around 94.9%. Due to the build-up of the CE as the BECC post the March 2023 payout for PTC Series A1 is 58.5% which is much lower than the monthly collection efficiency observed. The pool has performed well in the last 12 months with nil loss cum 30+ dpd and loss cum 0+ dpd has been sub 2.5% throughout. There has been a roll back from the softer bucket delinquencies (1-30 dpd) in the pool. As per the servicer, the billing considered is at the beginning of the month without factoring the billing for the contracts that have prepaid during the month and thus the collection efficiency in the pool is reported as lower.

The cumulative prepayment in the pool is modest at ~31%. The pool initially had 50 obligors which has now reduced to 36 contracts post Mar-23 payout. The obligor concentration in the pool has increased with top obligor constituting 11.7% of pool principal and top ten obligors constituting 67.5% of pool principal. Thus, the performance of the pool would be sensitive to the performance of these 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 upgrade the rating for the PTCs. ICRA will continue to closely monitor the performance of the 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 seven 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 March 2023 payout.

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 various above-mentioned factors, ICRA estimates the weighted average loss at 4.0-5.0% (of initial pool principal), with certain variability around it. Given the concentrated nature of this pool, the variability in performance that can be expected from such a pool of loans is also high. The prepayment rate for the underlying pool is estimated at 18.0% per annum.

Liquidity position: Adequate for PTC Series A1

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 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 rating could be upgraded if the amortisation of the loan facilities leads to the build-up of the CE cover over future payments.

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 March 2023 (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	ICRA Rating Methodology for Collateralised Debt Obligations
Parent/Group Support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

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 December 31, 2022, Varthana had a loan book of Rs. 870 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; 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 (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 27, 2023	Apr 28, 2022	Feb 03, 2022*	--
1	Olivia 12 2021	PTC Series A1	9.03	3.56	[ICRA]BBB+(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)	--

*Initial rating assigned

Complexity level of the rated instruments

Trust name	Instrument	Complexity Indicator
Olivia 12 2021	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 Type	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	3.56	[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.

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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