

June 16, 2023

Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited): Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	32.40	0.00	[ICRA]BBB- (Stable); reaffirmed & withdrawn
Non-convertible debentures	27.40	27.40	[ICRA]BBB- (Stable); reaffirmed
Term loan	150.00	150.00	[ICRA]BBB- (Stable); reaffirmed
Total	209.80	177.40	

*Instrument details are provided in Annexure I

Rationale

The rating action factors in Varthana Finance Private Limited's adequate capitalisation profile with a managed gearing of 1.2 times as of March 2023 (1.1 times as of March 2022) vis-à-vis 1.9 times as of March 2021. The capital-to-risk weighted assets ratio (CRAR) also improved to 58.9% as of March 2023 from 55.4% as of March 2022. Moreover, ICRA takes comfort from the company's institutional investors, which have supported it in raising capital in the past. Varthana had raised equity capital of Rs. 105 crore in FY2022. The rating continues to factor in the company's track record in the school financing business, led by an experienced senior management team with adequate understanding of the target segment. ICRA, however, notes the exit of some team members from senior management roles in the recent past.

ICRA notes Varthana's subdued asset quality with gross stage 3 assets, as a percentage of the on-book assets under management (AUM), at 8.4% as of March 2023 (12.0% as of March 2022). Net stage 3 stage assets, as a percentage of the AUM, stood at 5.9% as of March 2023. The improvement in the asset quality in FY2023 was largely on account of the sizeable write-off of Rs. 104.6 crore undertaken by the company. Further, the stage 3 provision coverage ratio reduced to 28.3% as of March 2023 (43.6% as of September 2022) from 54.2% as of March 2022 as the company reversed provisions of about Rs. 72 crore in Q4 FY2023 on the back of the sizeable write-offs. Varthana's total stressed portfolio (includes net stage 3 assets, net standard restructured portfolio and outstanding security receipts), as a percentage of the AUM, stood at 14% as of March 2023. ICRA notes that the portfolio originated post the Covid-19 pandemic (outstanding of Rs. 405.0 crore; 43% of the AUM as of March 2023) continues to perform well with minimal delinquencies. ICRA also notes the increase in share of higher ticket loans between March 2022 and March 2023; loans with ticket size of more than Rs. 5 crore stood at 8.7% of AUM as of March 2023 (nil as of March 2022).

Varthana's asset quality issues impacted its net profitability, which moderated to 0.2% in FY2022 and further to -6.4% (provisional, annualised) in 9M FY2023. However, backed by the reversal of provisions in Q4 FY2023, the return on managed assets (RoMA) increased to 0.5% in FY2023 (0.2% in FY2022 and -0.6% in FY2021). The company's profitability is expected to increase in FY2024, with incremental improvement in the asset quality and recoveries from the written-off portfolio.

Varthana's rating also remains constrained by its moderate scale of operations. Going forward, growth would depend on its ability to raise commensurate debt. The company had raised debt of about Rs. 345 crore in FY2023, largely through term loans from development financial institutions (DFIs), non-banking financial companies (NBFCs) etc., through the securitisation route and through the issuance of non-convertible debentures (NCDs) largely to foreign investors. The company was in breach of some of the financial covenants with its lenders and has received temporary relaxation from a few of them.

ICRA has also reaffirmed and withdrawn the long-term rating outstanding on the Rs. 32.40-crore NCDs as the instrument has matured and has been fully repaid. The rating has been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Adequate capitalisation profile – Varthana's managed gearing stood at 1.2 times as of March 2023 (1.1 times as of March 2022) compared to 1.9 times as of March 2021. Given the headwinds on the asset quality front and the weak earnings performance, the company had raised capital of about Rs. 105 crore in FY2022, which has supported its capital structure. The AUM has remained range bound at Rs. 938.4 crore as of March 2023 and Rs. 957.8 crore as of March 2022 (Rs. 1,044.8 crore as of March 2021), which has also supported the capital profile. The CRAR improved to 58.9% as of March 2023 (55.4% as of March 2022) from 35.7% in March 2021. Portfolio growth in FY2024 is expected to be supported by internal generation and external debt raise. Varthana does not envisage any equity capital raise in FY2024.

Track record in school financing segment – Varthana has been in the school financing business since 2013 and is led by an experienced senior management team with adequate understanding of the target segment. The company had augmented its senior management team in FY2021, including the Chief Business Officer, Chief Risk Officer, Head of Collections, Head of Legal and Head of Credit. ICRA, however, notes the frequent exit of some team members from senior management roles in the recent past. The company is backed by investors like ChrysCapital, LGT Capital Invest Mauritius, Elevar Equity Management Limited, Omidyar Network, Kaizen Private Equity, etc. Most of these investors had participated in the previous round of capital raise of Rs. 105 crore in FY2022.

Credit challenges

Subdued asset quality and profitability; expected NPA recoveries to support near-term improvement – Varthana's gross stage 3 assets, as a percentage of the on-book AUM, improved to 8.4% as of March 2023 from 12.0% as of March 2022 (gross stage 3 assets stood at 2.9% as of March 31, 2021). This was largely on account of the sizeable write-off of Rs. 104.6 crore. The stage 3 provision coverage ratio declined to 28.3% as of March 2023 (43.6% as of September 2022 and 34.8% as of December 2022) from 54.2% as of March 2022 as the company had reversed provisions of about Rs. 72 crore in Q4 FY2023 due to sizeable loan write-offs. Varthana was carrying overall provisions of Rs. 41 crore as of March 2023 (provisions against stage 3 loans stood at Rs. 21.9 crore), i.e. 4.4% of the AUM compared to 11.8% in March 2022. Its 0+ days past due (dpd), 60+dpd and 90+dpd remained elevated at 26.8%, 12.1% and 6.7%, respectively, as of March 2023 (0+, 30+ and 90+dpd stood at 32.5%, 21.3% and 11.0%, respectively, as of March 2022). The company's net standard restructured portfolio moderated to Rs. 54.0 crore as of March 2023 from Rs. 130.8 crore as of March 2022. Backed by some recoveries, the security receipts outstanding, received from the sale of assets to an asset reconstruction company in the last fiscal, moderated to Rs. 22.5 crore in March 2023. The company has access to the SARFAESI Act. As of March 2023, Rs. 203.2 crore of the portfolio (including Rs. 77 crore of the non-performing assets (NPA) portfolio) was covered under this. Its total stressed portfolio (including net stage 3 assets, net standard restructured portfolio and outstanding security receipts) stood at 14% of the AUM (25.5% of the net worth) as of March 2023.

ICRA notes that the portfolio originated post the pandemic (outstanding of Rs. 405.0 crore and 43% of the AUM as of March 2023) continues to perform well with minimal delinquencies. As of March 2023, 87.0% of Varthana's portfolio was secured. ICRA also notes the increase in share of higher ticket loans between March 2022 and March 2023; loans with ticket size of more than Rs. 5 crore stood at 8.7% of AUM as of March 2023 (nil as of March 2022). Going forward, Varthana's ability to restrict incremental slippages would be critical for improving the asset quality performance and would be a key monitorable from a rating perspective.

Varthana's profitability remains subdued, given the stressed asset quality. It reported RoMA of -6.4% (provisional, annualised) in 9M FY2023 due to the elevated credit and provision costs. Backed by the reversal of provisions in the Q4 FY2023, RoMA improved to 0.5% in FY2023 (0.2% in FY2022 and -0.6% in FY2021). Higher collection efforts and other initiatives to augment the information technology (IT) and internal management information system (MIS) increased the operating expense ratio (operating expenses/AMA) to 7.1% in FY2023 (5.5% in FY2022 and 4.4% in FY2021). Improvement in its operating efficiency, undertaking effective recoveries and keeping additional slippages under control would be crucial for incremental profitability, going forward.

Moderate scale of operations – Disbursements remained subdued in FY2021 and FY2022 following the onset of the pandemic from March 2020, leading to a further downward trajectory in the AUM. Asset quality challenges, coupled with challenges in fund-raising, were the primary reasons for limited and cautious disbursements. Disbursements improved in FY2023 to Rs. 370.6 crore from Rs. 117.9 crore in FY2022 and Rs. 106.2 crore in FY2021. However, the write-off of Rs. 104.6 crore, along with repayments/prepayments, contributed to the moderation of the portfolio in FY2023. The AUM declined to Rs. 1,044.8 crore in March 2021 from Rs. 1,104.0 crore in March 2020 and remained range bound at Rs. 957.8 crore and Rs. 938.4 crore, respectively, as of March 2022 and March 2023.

Ability to secure adequate debt funds critical for business growth – Varthana's debt funding was impacted over the last two years on account of the pandemic. This, along with the management's decision to follow a more cautious approach towards new business, resulted in the rundown of its loan book. Total borrowings (including accrued interest) moderated to Rs. 538.7 crore as of March 2022 from Rs. 802.0 crore as of March 2020 and stood at Rs. 600.0 crore as of March 2023. The company raised incremental funding of Rs. 345 crore in FY2023 (Rs. 77 crore in FY2022), largely from existing as well as new lenders (NBFCs and FIs) and through securitisation transactions. It onboarded nine new lenders (largely NBFCs) in FY2023.

The company had been in breach of lender covenants, primarily pertaining to the 90+dpd levels and with respect to the revised NPA recognition guidelines. Even though the covenants were breached, formal waivers were given in some cases. There has been no penalty on the breach of covenants. ICRA notes that Varthana's ability to secure incremental funds from banks and others, at competitive rates, would be crucial from a cost of funding and liquidity perspective.

Liquidity position: Adequate

Varthana's ALM profile was adequate as on March 31, 2023 with no negative cumulative mismatches in any of the buckets. The company has repayment obligations of Rs. 162.3 crore between April 2023 and June 2023 against which it had cash and bank balances (as per ALM statement as on March 31, 2023) of Rs.125.9 crore. With average monthly collections of Rs. 25 crore, as seen in the last six months, and available sanctions of about Rs. 50 crore, Varthana's liquidity position is adequate. As of March 2023, its borrowing profile comprised borrowings from NBFCs (35.9%), issuance of NCDs to Foreign Investors (24.5%), external commercial borrowings (ECBs; 20.5%), securitisation (16.0%) and borrowings from banks (1.5%).

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the rating if Varthana is able to demonstrate a sustained improvement in its asset quality and scale of operations, leading to an improved earnings profile.

Negative factors – ICRA could revise the outlook to Negative or downgrade the rating if the asset quality continues to remain weak, thereby exerting further pressure on the earnings and liquidity profile of the company. Inability to secure incremental funding lines in a timely manner could also negatively impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company

About the company

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 March 31, 2023, the promoters held a 10.6% stake in the company with the balance held by institutional investors (83.6%), 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 and 1 Union Territory, including Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Odisha, Rajasthan, and Chhattisgarh, with its head office in Bengaluru. As on March 31, 2023, Varthana had a loan book of Rs. 938.4 crore.

Key financial indicators (audited)

Varthana Finance Private Limited	FY2021	FY2022	FY2023
Total income	211.6	190.7	171.1
Profit after tax	-7.7	2.5	5.4
Net worth	386.7	495.2	506.8
Assets under management	1,044.8	957.8	938.4
Total assets	1,164.4	1,048.7	1,130.1
Return on managed assets	-0.6%	0.2%	0.5%
Return on net worth	-1.9%	0.6%	1.1%
Gearing (times)	1.9	1.1	1.2
Gross Stage 3 (%)	2.9%	12.0%	8.4%
Net Stage 3 (%)	1.5%	5.5%	5.9%
Solvency (Net stage 3/Net worth)	3.7%	10.6%	10.4%
CRAR (%)	35.7%	55.4%	58.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	FY2023 Date & Rating in FY2023	FY2022 Date & Rating in FY2022		Date & Rating in FY2021
					Jun 16, 2023		Dec 10, 2021	May 28, 2021	
1	NCDs	LT	27.00	27.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB (Negative)	-	-
2	NCDs	LT	32.40	0.00	[ICRA]BBB-(Stable); reaffirmed and withdrawn	[ICRA]BBB-(Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	NCDs	LT	0.40	0.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	Term loan	LT	150.00	9.20	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

LT – Long term

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Non-convertible debentures	Very simple

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

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan*	NA	NA	NA	20.0	[ICRA]BBB- (Stable)
NA	Term Loan*	NA	NA	NA	20.0	[ICRA]BBB- (Stable)
NA	Term Loan*	NA	NA	NA	20.0	[ICRA]BBB- (Stable)
NA	Term Loan*	NA	NA	NA	20.0	[ICRA]BBB- (Stable)
NA	Term Loan*	NA	NA	NA	18.9	[ICRA]BBB- (Stable)
NA	Term Loan^	Mar 25, 2019	NA	May 5, 2023	1.1	[ICRA]BBB- (Stable)
NA	Term Loan*	NA	NA	NA	25.8	[ICRA]BBB- (Stable)
NA	Term Loan^	September 26, 2019	NA	November 30, 2023	4.2	[ICRA]BBB- (Stable)
NA	Term Loan^	September 30, 2019	NA	October 03, 2024	3.9	[ICRA]BBB- (Stable)
NA	Term loan – Proposed	NA	NA	NA	16.1	[ICRA]BBB- (Stable)
INE125T07105	NCD	May 03, 2019	12.75%	May 03, 2023	32.40	[ICRA]BBB- (Stable); reaffirmed and withdrawn
INE125T07154	NCD	Dec 23, 2021	12.00%	Jan 01, 2025	27.00	[ICRA]BBB- (Stable)
NA	NCD – Proposed	NA	NA	NA	0.40	[ICRA]BBB- (Stable)

Source: Company; *sanctions in pipeline; ^outstanding as of March 31, 2023

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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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Branches



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