

July 20, 2023

## Indian School Finance Company Private Limited: Rating upgraded for PTCs issued under school finance receivables securitisation transaction

### Summary of rating action

Trust Name	Instrument*	Initial Rated Amount (Rs. crore)	Amount O/s after Last Surveillance (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Northern Arc 2021 SBL Fischer	PTC Series A	3.15	1.22	0.14	[ICRA]AA+(SO); Upgraded from [ICRA]BBB(SO)

\*Instrument details are provided in Annexure I

### Rationale

The pass-through certificates (PTCs) originated by Indian School Finance Company Private Limited {ISFC; rated [ICRA]BB+ (Stable)} are backed by school finance receivables. The rating upgrade takes into account the significant amortisation of the pool, which has led to the cash collateral (CC) covering the entire future PTC payouts. The breakeven collection efficiency is nil compared to the actual collection level observed in the pool.

### Pool performance summary

A summary of the performance of the pool till the May 2023 collection month (June 2023 payout month) has been tabulated below.

Parameter	Northern Arc 2021 SBL Fischer
Months post securitisation	27
Pool amortisation	88.32%
PTC amortisation – PTC Series A	95.43%
Cumulative collection efficiency <sup>1</sup>	98.20%
Loss-cum-0+ (% of initial pool principal) <sup>2</sup>	2.97%
Loss-cum-30+ (% of initial pool principal) <sup>3</sup>	0.74%
Loss-cum-90+ (% of initial pool principal) <sup>4</sup>	0.74%
Breakeven collection efficiency <sup>5</sup> – PTC Series A	0.00%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	85.60%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) <sup>6</sup> – PTC Series A	8.03%
Principal subordination (% of balance pool principal) – PTC Series A	64.81%
Cumulative prepayment rate	23.18%

<sup>1</sup> Cumulative collections till date / Cumulative billings till date + Opening overdues

<sup>2</sup> Principal outstanding (POS) on contracts aged 0+ dpd + Overdues / Initial POS on the pool

<sup>3</sup> POS on contracts aged 30+ dpd + Overdues / Initial POS on the pool

<sup>4</sup> POS on contracts aged 90+ dpd + Overdues / Initial POS on the pool

<sup>5</sup> It is the minimum collection efficiency required over the balance tenure to ensure all investor payouts are met: (Balance cash flows payable to investor – CC available) / Balance pool cash flows

## Key rating drivers

### Credit strengths

- Significant amortisation of pool, resulting in CC fully covering the future PTC payouts.
- Healthy collection efficiency exhibited by the pool.

### Credit challenges

- Pool's performance would remain exposed to macroeconomic shocks/business disruptions, if any

### Description of key rating drivers highlighted above

The monthly collection efficiency has shown a cyclical trend with high collections in a few months followed by lower collections in the next month. Collections in school loan pools tend to mirror the fee collections in the school. Collections increased sharply in March 2023 due to higher collections from overdue contracts. Overall collections have been healthy with the cumulative collection efficiency exceeding 98% as of the June 2023 payout. The pool has seen a low loss-cum-90+ days past due (dpd) of 0.74% with rollback seen in the loss-cum-90+ dpd numbers in the last few months. Its monthly average prepayment rate is moderate at ~1%. The pool's performance witnessed volatility as it is concentrated. The balance pool has only 17 obligors with the top obligor accounting for ~18% and the top 10 obligors constituting ~85% of the balance pool. Thus, its performance would remain sensitive to the performance of these contracts.

In the current transaction, principal amount is promised to the PTC investors only on the final maturity date (only the interest amount is promised on a monthly basis to PTC investors). Thus despite volatile collections, there has been no CC utilisation till date in the pool. Given the high amortisation of the pool, had led to resulting in a significant buildup in the credit enhancement for the balance tenure of the PTC payouts such that the CC fully covers the balance PTC payouts.

Overall, the CE available for meeting the balance payouts to the investors is sufficient to upgrade the rating in the transaction. ICRA will continue to monitor the performance of the transaction. Any further rating action will be based on the performance of the pool and the availability of CE relative to ICRA's expectations. The pool's performance would remain exposed to macro-economic shocks/business disruptions.

**Performance of past rated pools:** ICRA has rated 11 securitisation transactions with the underlying receivables originated by ISFC. The live pools have reported a cumulative collection efficiency of more than 90% as of the June 2023 payout and a loss-cum-90+ dpd of less than 4% with no CC utilisation.

### Key rating assumptions

ICRA's cash flow modelling for 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. 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 (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 considering 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. Given the concentrated nature of this pool, the variability in performance that can be expected from such a pool of loans is high.

### 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** – Rating is 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 pool's performance till May 2023 (collection month), the present delinquency profile of the pool of contracts, the performance expected over the balance pool tenure, and the CE available in the transaction.

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Collateralised Debt Obligations</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

## About the originator

Hyderabad-based Indian School Finance Company Private Limited (ISFC) is a non-banking financial company (NBFC) providing credit facilities to affordable private schools (APS), colleges, coaching centres, vocational colleges and play schools for infrastructure improvement, capacity expansion, working capital, digital upgradation and student fee financing. The company currently operates in 14 states/Union Territories across the country including Andhra Pradesh, Telangana, Tamil Nadu, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Delhi, Uttar Pradesh, Uttarakhand, Odisha, Gujarat, Haryana and Jharkhand. ISFC was incorporated in May 1994, as a public limited company, under the name Corporate Deposits Investments Limited. Gray Ghost Ventures (GGV) acquired the NBFC in October 2008 and commenced operations by providing loans to the APS segment.

In FY2023, ISFC reported a net profit of Rs. 0.2 crore on total managed assets of Rs. 193.0 crore as on March 31, 2023 compared to a net loss of Rs. 4.5 crore on total managed assets of Rs. 265.4 crore as on March 31, 2022. As on March 31, 2023, the company's gross non-performing advances (NPA) and net NPA stood at 2.9% and 2.2%, respectively, against 12.8% and 9.7%, respectively, as on March 31, 2022.

## Key financial indicators (Ind-AS)

	FY2021	FY2022	FY2023
Interest income	63.0	43.7	25.8
Profit after tax (PAT)	-17.0	-4.5	0.2
Total managed assets	414.1	265.4	193.0
Gross stage 3	13.0%	12.8%	2.9%
Net stage 3	6.9%	9.7%	2.2%

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

Sr. No.	Trust Name	Instrument	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years				
			Initial Amount	Amount	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
			Rated (Rs. crore)	Outstanding (Rs. crore)	July 20, 2023	July 25, 2022	July 08, 2021	April 01, 2021*	-
1	Northern Arc 2021 SBL Fischer	PTC Series A	3.15	0.14	[ICRA]AA+(SO)	[ICRA]BBB(SO)	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	-

\*Provisional rating assigned

## Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Northern Arc 2021 SBL Fischer	PTC Series A	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
Northern Arc 2021 SBL Fischer	PTC Series A	March 2021	12.00%	June 2025	0.14	[ICRA]AA+(SO)

\* Scheduled maturity at transaction initiation; may change on account of prepayments in the underlying pool

#### Annexure II: List of entities considered for consolidated analysis

Not applicable

## ANALYST CONTACTS

**Abhishek Dafria**

+91 22 6114 3440

[abhishek.dafria@icraindia.com](mailto:abhishek.dafria@icraindia.com)

**Sachin Joglekar**

+91 22 6114 3470

[sachin.joglekar@icraindia.com](mailto:sachin.joglekar@icraindia.com)

**Gaurav Mashalkar**

+91 22 6114 3431

[gaurav.mashalkar@icraindia.com](mailto:gaurav.mashalkar@icraindia.com)

**Advait Athavale**

+91 22 6114 3433

[advait.athavale@icraindia.com](mailto:advait.athavale@icraindia.com)

**Nemish Shah**

+91 22 6114 3456

[nemish.shah@icraindia.com](mailto:nemish.shah@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6169 3304

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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