

August 28, 2023

Indian School Finance Company Private Limited: Rating reaffirmed 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
CredAvenue Armani 06 2021	PTC Series A1	11.37	7.00	2.58	[ICRA]BBB(SO); reaffirmed

*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. While the pool has shown healthy amortisation, which has led to the build-up of the credit enhancement cover, the rating has been reaffirmed due to the high obligor concentration in the balance pool. The rating is also constrained by ISFC's credit profile. The pool has exhibited moderate delinquency levels with volatility in the same on account of the high obligor concentration with the pool's performance also driven by these contracts. However, the breakeven collection efficiency is comfortable compared to the actual collection level observed in the pool.

Pool performance summary

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

Parameter	CredAvenue Armani 06 2021
Months post securitisation	25
Pool amortisation	66.43%
PTC amortisation – PTC Series A1	77.31%
Cumulative collection efficiency ¹	97.60%
Loss-cum-0+ (% of initial pool principal) ²	6.45%
Loss-cum-30+ (% of initial pool principal) ³	2.04%
Loss-cum-90+ (% of initial pool principal) ⁴	0.00%
Breakeven collection efficiency ⁵ – PTC Series A1	37.94%
Cumulative cash collateral (CC) utilisation (% of initial CC)	0.00%
CC available (as % of balance pool principal)	14.89%
Excess interest spread (EIS) over balance tenure (as % of balance pool principal) ⁶ – PTC Series A1	18.42%
Principal subordination (% of balance pool principal) – PTC Series A1	42.55%
Cumulative prepayment rate	26.68%

¹ Cumulative collections till date / Cumulative billings till date + Opening overdues

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

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

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

⁵ 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

- Healthy amortisation of pool resulting in buildup of Cash Collateral (CC), Principal subordination and Excess Interest Spread cover.
- Healthy collection efficiency exhibited by the pool.

Credit challenges

- High obligor concentration in the pool with top ten obligors contributing to ~68% of the balance pool principal amount.
- Moderate credit quality of the underlying borrowers.
- Pool's performance would remain exposed to macroeconomic shocks/business disruptions, if any.

Description of key rating drivers highlighted above

Collections had previously shown a cyclical trend with the same being higher in quarter-end months and lower in the subsequent month. They were also impacted by the closure of schools on account of the Covid-19 pandemic and have followed the trend of fee collection in schools, basis the academic year. Collections were impacted in June 2021, touching a low of 88.1% on account of the second wave of the pandemic, but improved subsequently and exceeded 90% in all the months after July 2022. Overall collections have been healthy with the cumulative collection efficiency exceeding 97% as of the July 2023 payout.

While there has been some volatility in the softer delinquency buckets on account of the weak performance of a few contracts, the slippage to the 90+ bucket has been low. Thus, the loss-cum-90+ days past due (dpd) has been sub-1% for all months. The initial pool had 71 obligors while the balance pool has only 40 obligors. The top obligor accounts for ~21% of the balance pool while the top 6 account for more than 4% each and the top 10 constitute ~68% of the balance pool. Since the pool is concentrated, its performance would depend on the performance of these top contracts.

The pool has undergone healthy amortisation of around 66%, which has led to the healthy build-up of credit enhancement over the PTC payouts. Despite volatile collections, there has been no CC utilisation till date. Further, in the current transaction, the 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 the senior PTC investors).

Overall, the credit enhancement available for meeting the balance payouts to the investors is sufficient to reaffirm the rating for the transaction. 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. 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 July 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: Adequate

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 during the tenure of the transaction and the available credit enhancement are expected to be adequate to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive factors – The rating could be upgraded on the basis of the amortisation of the loan facilities, leading to a build-up of the credit enhancement cover over the future payments.

Negative factors – Any deterioration in the credit quality of the underlying borrowers could lead to pressure on the rating.

Analytical approach

The rating action is based on the pool's performance till June 2023 (collection 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 Collateralised Debt Obligations
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 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, at present. 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 and net non-performing advances (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 Rated	Amount Outstanding	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
			(Rs. crore)	(Rs. crore)	Aug 28, 2023	Aug 29, 2022	Aug 18, 2021	Jul 05, 2021*	-
1	CredAvenue Armani 06 2021	PTC Series A1	11.37	2.58	[ICRA]BBB(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
CredAvenue Armani 06 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	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
CredAvenue Armani 06 2021	PTC Series A1	June 2021	13.25%	February 2027	2.58	[ICRA]BBB(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

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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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