

November 27, 2023

Varthana Finance Private Limited (erstwhile Thirumeni Finance 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)	Amount o/s as of Oct-23 payout (Rs. crore)	Rating Action
Shiksha 07 2022	PTC Series A1	23.22	NA	7.38	[ICRA]A+(SO); Upgraded from [ICRA]A-(SO)

*Instrument details are provided in Annexure I

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); erstwhile Thirumeni Finance Private Limited). The rating has been upgraded on account of healthy amortisation of the pool has resulted in the build-up of the cash collateral (CC), principal subordination and excess interest spread (EIS) cover available for the balance PTC payouts. While the pool has exhibited low delinquency levels with a healthy collection efficiency, the obligor concentration has increased in the balance pool. Further, the breakeven collection efficiency (BECC) is comfortable compared to the actual collection level observed in the pool.

A summary of the performance of the pool after the October 2023 payout is provided below.

Parameter	Shiksha 07 2022
Months post securitisation	14
Pool amortisation (%)	51.16%
PTC Series A1 amortisation	68.20%
Cumulative collection efficiency (%) ¹	98.08%
Loss-cum-30+ (% of initial pool principal) ²	0.93%
Loss-cum-90+ (% of initial pool principal) ³	0.23%
Average monthly prepayment rate	2.23%
Breakeven collection efficiency (BECC) for PTC Series A1	37.85%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	10.24%
Excess interest spread (EIS) (as % of balance pool) ⁴ for PTC Series A1	32.46%
Principal subordination (as % of balance pool) ⁵ for PTC Series A1	41.40%

¹ Cumulative collections / (Cumulative billings + Opening overdues 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 and their description

Credit strengths

- Healthy amortisation of pool resulting in build-up of CC, principal subordination and EIS cover available for the balance PTC payouts
- Healthy collection efficiency and low delinquency levels in the pool

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 pool had shown healthy collections for most months with a cumulative collection efficiency of 98.1%. Collections have shown a cyclical trend and have followed the trend of fee collection in schools, basis the academic year. Due to the build-up of the credit enhancement and nil CC utilisation, the BECC, post the October 2023 payout, for PTC Series A1 is 37.9%. This is much lower than the monthly collection efficiency observed. The pool has shown low delinquency levels with loss-cum-30+ days past due (dpd) of 0.9% while the loss-cum-90+ dpd was 0.2%.

The pool has seen a higher monthly prepayment rate of 2.3%, post the October 2023 payout. The higher prepayments are on account of the full prepayment/pre-closure of certain high ticket size loans. The pool initially had 149 obligors with the same declining to 101, post the October 2023 payout. The obligor concentration in the pool has increased with the top obligor constituting 5.2% of the pool principal and the top 10 obligors constituting 36.2% of the 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 healthy with the cumulative collection efficiency exceeding 95% and nil CC utilisation as of the October 2023 payout.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the 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.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 2.00-3.00% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 12.0-18.0% per annum.

Liquidity position: Strong

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 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 rating downgrade.

Analytical approach

The rating action is based on the performance of the pool till October 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	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the originator

VFPL 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%). VFPL 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, VFPL had a loan book of Rs. 938.4 crore.

ICRA has a rating outstanding of [ICRA]BBB- (Stable) on VFPL's non-convertible debenture programme and long-term bank lines.

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
Assets under management	1,044.8	957.8	938.4
Gross stage 3	2.9%	12.0%	8.4%
Net stage 3	1.5%	5.5%	5.9%

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

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 in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Nov 27, 2023	Nov 30, 2022	Oct 03, 2022*		
1	Shiksha 07 2022	PTC Series A1	23.22	7.38	[ICRA]A+(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	--	--

*Initial rating assigned

Complexity level of the rated instrument

Trust name	Instrument	Complexity Indicator
Shiksha 07 2022	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
Shiksha 07 2022	PTC Series A1	September 2022	11.25%	September 2029	7.38	[ICRA]A+(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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Pratik Vora

+91 22 6114 3438

pratik.vora@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Advait Athavale

+91 22 6114 3433

advait.athavale@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6169 3304

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

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

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

ICRA Limited



Registered Office

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



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.