

June 07, 2024<sup>(Revised)</sup>

## Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited): Rating upgraded to [ICRA]BBB (Stable)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	27.00	27.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable)
Non-convertible debentures	0.40	0.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable) and withdrawn
Term loan	150.00	0.00	[ICRA]BBB (Stable); Upgraded from [ICRA]BBB- (Stable) and withdrawn
<b>Total</b>	<b>177.40</b>	<b>27.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating upgrade factors in the scale-up of Varthana Finance Private Limited's (Varthana) portfolio in FY2024 and the improvement in its asset quality as it continued to recover from the Covid-19 pandemic-related stress. The assets under management (AUM) expanded by 37% year-over-year (YoY) to Rs. 1,281.1 crore in March 2024 from Rs. 938.4 crore as of March 2023 (Rs. 938.4 crore as of March 2022.) Varthana had also acquired the entire portfolio of Indian School Finance Company Private Limited (ISFC; Rs.126 crore loan portfolio and Rs.34.73 crore Security Receipts) in February 2024. While Varthana's focus remains on school loans, it expanded its student loan portfolio, which increased in the current fiscal (11.5% of the portfolio as of March 2024) and is expected to scale up further over the medium term. Overall, ICRA expects the company to maintain the AUM growth at a compound annual growth rate (CAGR) of 35-40% over the medium term.

Varthana's gross stage 3 assets improved to 2.8% as of March 2024 from 8.4% as of March 2023. Further, the standard restructured assets improved to 2.8% as of March 2024 from 6.6% as of March 2023. The headline asset quality in FY2024 was supported by the steady improvement in collections from the stage 3 and restructured portfolios as well as the sizeable ARC transaction (for a consideration of Rs. 98.5 crore). Varthana also wrote off Rs. 20.7 crore of the stage 3 assets during the year. However, the recoveries from the overall written-off accounts were healthy at Rs. 31.4 crore (excluding the gains from the ARC transaction).

Varthana's capitalisation profile remains adequate with a managed gearing of 2.0 times as of March 2024 (1.2 times as of March 2023). Going forward, growth would depend on its ability to raise commensurate debt and improve its funding profile. The company had raised debt of Rs. 868.3 crore in FY2024, largely through term loans from development financial institutions (DFIs), non-banking financial companies (NBFCs), etc., through the securitisation route and the issuance of non-convertible debentures (NCDs) largely to foreign investors. Banks accounted for only 6% of the borrowings outstanding as of March 2024, and the company is expected to get more funds from banks, which would support its cost of borrowings. Earnings improved in FY2024, supported by the gains from loan recoveries, including the ARC transaction. Optimising operating expenses (opex) and keeping credit costs under control would be key for a sustained improvement in the profitability, going forward.

The Stable outlook reflects ICRA's opinion that Varthana's improved asset quality and adequate capital profile shall support the envisaged growth over the near to medium term.

ICRA has also upgraded and withdrawn the long-term rating outstanding on the Rs. 150.0-crore term loans and Rs. 0.4-crore NCDs as per request from the company. 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 2.0 times as of March 2024 (1.2 times as of March 2023) compared to 1.1 times as of March 2022. The capital-to-risk weighted assets ratio (CRAR) stood at 40.7% as of March 2024 (58.9% as of March 2023). The company raised capital in FY2022 (about Rs. 105 crore), which has supported its solvency profile amid the headwinds on the asset quality front and the weak earnings performance over the last two years. The capital profile is adequate for meeting the growth target for the next 1-2 years. However, Varthana would be required to raise further capital in subsequent years to support the envisaged growth.

**Improving asset quality** – Varthana's gross stage 3 assets improved to 2.8% as of March 2024 from 8.4% as of March 2023. The softer bucket delinquencies also witnessed significant improvement with the 0+ days past due (dpd) and 60+dpd improving to 12.8% and 5.7%, respectively, as of March 2024 (26.8% and 12.1% respectively, as of March 2023). Further, the standard restructured assets improved to 2.8% as of March 2024 from 6.6% as of March 2023. The improvement in the asset quality in FY2024 was supported by the steady increase in collections from delinquent & restructured portfolios as well as the sizeable ARC transaction (for a consideration of Rs. 98.5 crore). Varthana also wrote off Rs. 20.7 crore of the stage 3 book during the year. However, the recoveries from the written-off accounts were healthy at Rs. 31.4 crore (excluding gains from the ARC transaction).

ICRA notes that the portfolio originated after the pandemic (outstanding of Rs. 1,052.2 crore and 82% of the AUM as of March 2024) continues to perform well with minimal delinquencies. Going forward, Varthana's ability to improve recoveries from its remaining stressed portfolio in a timebound manner would be critical.

**Track record in school financing segment** – Varthana has been in the school financing business since 2013 and is led by an experienced promoters with adequate understanding of the target segment. The company had an adequately augmented senior management in FY2024; though, ICRA notes there were exits of some members in the past. Incrementally, the stabilised senior management team would support Varthana in its growth plans. The company is backed by investors like ChrysCapital, LGT Capital Invest Mauritius, Elevar Equity Management Limited, Omidyar Network, Kaizen Private Equity, etc.

### Credit challenges

**Profitability constrained by high opex and credit cost** – Varthana's profitability remains subdued, notwithstanding the improvement in FY2024. It reported a return on managed assets (RoMA) of 2.1% in FY2024 compared to 0.5% in FY2023, backed by recoveries of Rs. 80.3 crore (including gains from the sale of stressed assets to an ARC) from the written-off book. Higher collection efforts and other initiatives to augment the information technology (IT) and internal management information system (MIS) led to an opex ratio {opex/average managed assets (AMA)} of 6.5% in FY2024 (7.1% in FY2023 and 5.5% in FY2022). Gross credit costs have remained high due to write-offs and elevated provision costs. However, there have been substantial recoveries from the written-off book, which led to the moderation in the net credit costs (as a percentage of AMA) to 1.7% in FY2024 and 1.4% in FY2023 from 3.4% in FY2022. Improvement in the operating efficiency, undertaking effective recoveries and keeping additional slippages under control would be crucial for incremental profitability, going forward.

**Moderate scale of operations; ability to improve funding profile is crucial** – Varthana's AUM increased to Rs. 1,281.1 crore in March 2024 from Rs. 938.4 crore as of March 2023, supported by higher disbursements (Rs. 864.6 crore in FY2024 vis-à-vis Rs. 370.6 crore in FY2022). The scale, however, remains moderate. The company raised incremental funds of Rs. 868.3 crore in

FY2024 (Rs. 345 crore in FY2023) from existing as well as new lenders {NBFCs and financial institutions (FIs)} and through securitisation transactions, which supported disbursements. Varthana's borrowing profile (as of March 2024) comprises a mix of term loans from FIs/NBFCs (42%), NCDs (22%), external commercial borrowings (21%), securitisation transactions (10%) and term loans from banks (6%). ICRA notes that Varthana's ability to secure incremental funds from banks and other sources at competitive rates would be crucial from a cost of funding and liquidity perspective.

## Liquidity position: Adequate

Varthana's asset-liability maturity (ALM) profile is adequate with no negative cumulative mismatches in any of the buckets. The company has repayment obligations of Rs. 247.3 crore between May 2024 and October 2024 against which it had a cash and bank balance of Rs. 192.4 crore as of April 30, 2024 (Rs.272 crore as of March 31, 2024). With average monthly collections of Rs. 34.5 crore, as seen in the last six months, and available sanctions, Varthana's liquidity position is adequate.

## Rating sensitivities

**Positive factors** – Sustained improvement in the scale of operations while maintaining asset quality under control, leading to an improved earnings profile (RoMA of more than 2% on a sustained basis), would be a positive factor.

**Negative factors** – Deterioration in the asset quality, resulting in pressure on the earnings profile of the company, could be a negative factor. Weakening in the funding and liquidity profile or an increase in the leverage beyond 5 times would also negatively impact the rating.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-banking Finance Companies</a> <a href="#">Policy on Withdrawal of Credit Ratings</a>
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 December 31, 2023, the promoters held a 9.4% stake in the company with the balance held by institutional investors (85.4%), individual investors (2.1%) and an employee share ownership trust (3.1%).

Varthana offers credit facilities to private schools, including affordable-private schools, for improvement, capacity expansion and growth. Varthana had also acquired the entire portfolio of Indian School Finance Company Private Limited (ISFC; Rs.126 crore loan portfolio and Rs.34.73 crore Security Receipts) in February 2024. 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, 2024, Varthana had a loan book of Rs. 1,281.1 crore.

## Key financial indicators

Varthana Finance Private Limited	FY2022	FY2023	FY2024
Total income	190.7	171.1	256.2
Profit after tax	2.5	5.4	30.9
Total managed assets	1,162.0	1,180.0	1,701.7
Return on managed assets	0.2%	0.5%	2.1%
Managed gearing (times)	1.1	1.2	2.0

Varthana Finance Private Limited	FY2022	FY2023	FY2024
Gross stage 3	12.0%	8.4%	2.8%
CRAR	55.4%	58.9%	40.7%

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

Instru ment	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years				
	Ty pe	Amount Rated (Rs. crore)	Amount Outstandi ng (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	FY2023 Date & Rating in FY2023	FY2022		
							Date & Rating in FY2022		
				Jun 07, 2024	Jun 16, 2023	Sep 20, 2022	Dec 10, 2021	May 28, 2021	
1	NCDs	LT	27.00	27.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	-
2	Term loan	LT	150.00	0.00	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Negative)	[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	150.0	[ICRA]BBB (Stable); 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); withdrawn

Source: Company

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

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

Not Applicable

#### Corrigendum

The rating rationale document dated June 07, 2024 has been updated with a revision in page 1, “Rationale” section and page 3, “About the company” section, wherein the consideration amount of the ISFC portfolio acquisition has been removed.

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