

April 30, 2024

Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited): Rating reaffirmed for PTCs issued under school finance receivable 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 Mar-24 payout (Rs. crore)	Rating Action
Olivia 12 2021	PTC Series A1	9.03	3.56	1.18	[ICRA]BBB+(SO); Reaffirmed

*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 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 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 March 2024 payouts is provided below.

Parameter	Olivia 12 2021
Months post securitisation	26
Pool amortisation (%)	80.52%
PTC Series A1 amortisation	86.91%
Cumulative collection efficiency (%) ¹	96.70%
Loss-cum-30+ dpd (days past due) (% of initial pool principal) ²	0.00%
Loss-cum-90+ dpd (% of initial pool principal) ³	0.00%
Average monthly prepayment rate	2.03%
Breakeven collection efficiency (BECC) for PTC Series A1	26.52%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	30.80%
Excess interest spread (EIS) (as % of balance pool) ⁴ for PTC Series A1	17.44%
Principal subordination (as % of balance pool) ⁵ for PTC Series A1	39.53%

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 amortization of pool resulting in build-up of Cash Collateral (CC), Principal subordination and Excess Interest Spread cover available for the balance PTC payouts.
- Low delinquency levels observed throughout with healthy collection efficiency.

Credit challenges

- High 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 with a cumulative collection efficiency of 96.7% and monthly collection efficiency exceeding 99% in each of the last 12 months. Collections in school finance pools have typically 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 March 2024 payout, for PTC Series A1 is 26.5%. This is much lower than the monthly collection efficiency observed. The pool has shown no delinquency during past 12 months in harder buckets (loss cum 30+ dpd) while some of the contracts which were 8n the 1-30 dpd bucket have subsequently become current on account of overdue collections.

The pool has seen higher monthly prepayment rate of ~2%, post the March 2024 payout. The higher prepayments are on account of the full prepayment/pre-closure of certain high ticket size loans. The pool initially had 52 contracts with the same declining to 20, post the March 2024 payout. The obligor concentration in the pool has increased with the top obligor constituting 20.4% of the pool principal and the top 10 obligors constituting 85.6% of the balance 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 reaffirm 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 March 2024 payout.

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. Factoring in the high obligor concentration and the profile of the borrowers in the current pool, ICRA has analysed 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. Upon the analysis of the loan cash flows after considering the above-mentioned factors, ICRA estimates the weighted average loss at 3.25-4.25%, with certain variability around it. Given the concentrated nature of the pool, the expected variability in the performance of such a pool of loans is also high. The prepayment rate for the underlying pool is estimated at 18.0% per annum.

Liquidity position: Superior for PTC Series A1

The liquidity for the PTC instrument in the transaction is superior after factoring in the credit enhancement (CE) available to meet the promised payouts to the investors. The total CE would be more than 10 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded once the cash collateral 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. The rating could also be downgraded due to deterioration in credit profile of VFPL.

Analytical approach

The rating action is based on the performance of the pool till March 2024 (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	ICRA's Rating Methodology for Collateralised Debt Obligations
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 September 30, 2023, VFPL had a loan book of Rs. 1,028 crore.

Key financial indicators (audited)

VFPL	FY2021	FY2022	FY2023	H1FY2024
Total income	211.6	190.7	171.1	97.1
Profit after tax	-7.7	2.5	5.4	10.2
Total assets	1,164.4	1,048.7	1,130.1	1,364.1
Gross NPA (%)	2.9%	12.0%	8.4%	6.7%
CRAR (%)	35.7%	55.4%	58.9%	50.7%

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

Sr. No.	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					April 30, 2024	Apr 27, 2023	Apr 28, 2022	Feb 03, 2022*	
1	Olivia 12 2021	PTC Series A1	9.03	1.18	[ICRA]BBB+(SO)	[ICRA]BBB+(SO)	[ICRA]BBB(SO)	Provisional [ICRA]BBB(SO)	

*Initial rating assigned

Complexity level of the rated instruments

Trust name	Instrument	Complexity Indicator
Olivia 12 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 Type	Date of Issuance / Sanction	Coupon Rate	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
Olivia 12 2021	PTC Series A1	January 2022	12.25%	October 2026	1.18	[ICRA]BBB+(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

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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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