

October 22, 2024

Varthana Finance Private Limited (erstwhile Thirumeni Finance Private Limited): Rating upgraded for PTCs issued under a 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 Sep-24 payout (Rs. crore)	Rating Action
Patshala 05 2022	PTC Series A1	38.78	7.75	1.44	[ICRA]AA+(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 (erstwhile Thirumeni Finance Private Limited) (VFPL (rated [ICRA]BBB(Stable))). The rating upgrade factors in the build-up of the credit enhancement cover over the future PTC payouts on account of the high pool amortisation and healthy pool performance. The rating also draws comfort from the fact that the breakeven collection efficiency is lower than the actual collection level observed in the pool till the September 2024 payout month.

A summary of the performance of the pool after the September 2024 payouts is provided below.

Parameter	Patshala 05 2022
Payout month	Sep-24
Months post securitisation	27
Pool amortisation (%)	86.79%
PTC Series A1 amortisation	96.28%
Cumulative collection efficiency (%) ¹	97.70%
Loss-cum-30+ dpd days past due (dpd) (% of initial pool principal) ²	0.68%
Loss-cum-90+ dpd (% of initial pool principal) ³	0.00%
Cumulative prepayment rate	60.52%
Breakeven collection efficiency (BECC) for PTC Series A1	0.00%
Cumulative cash collateral (CC) utilisation	0.00%
CC available (as % of balance pool)	60.55%
Excess interest spread (EIS) (as % of balance pool) ⁴ for PTC Series A1	16.14%
Principal subordination (as % of balance pool) ⁵ for PTC Series A1	74.69%

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

Transaction Structure

As per the transaction structure, the monthly cash flow schedule comprises the promised interest payout. The principal is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. The residual cash flows from the pool, after meeting the promised and expected payouts, will be passed on to PTC Series A1 investors. Any prepayment in the pool would be used for the prepayment of the PTC Series A1 principal.

Key rating drivers and their description

Credit strengths

Healthy collections seen in the pool – The pool’s performance has been healthy with a cumulative collection efficiency of more than 97% till the September 2024 payout, which resulted in no delinquency with the 90+ days past due (dpd). The pool has seen healthy collections resulting in low delinquencies in the past with monthly collection efficiency upwards of 95% and loss cum 90+ dpd below 0.5% in last 12 months.

Substantial credit enhancement available in the structure - The rating factors in the build-up in the credit enhancement with the CC fully covering the future PTC payouts to the investors, on account of significant pool and PTC amortisation.

Credit challenges

Not Applicable

Key rating assumptions

ICRA’s cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator’s loan portfolio as well as the characteristics of the specific pool being evaluated. The resulting collections from the pool, after incorporating the impact of the losses and prepayments, are accounted for in ICRA’s cash flow model, in accordance with the cash flow waterfall of the transaction.

Details of Key counterparties

The key counterparties in the rated transaction is as follows:

Transaction Name	Patshala 05 2022
Originator	VFPL
Servicer	VFPL
Trustee	Vardhman Trusteeship Private Limited
CC holding bank	South Indian Bank
Collection and payout account bank	ICICI Bank

Liquidity position: Superior for PTC Series A1

The liquidity is superior since the available CC fully covers the balance PTC payouts.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – The ratings for PTCs are unlikely to be downgraded as the CC available in the transaction is sufficient to meet the future investor payouts.

Analytical approach

The rating action is based on the performance of the pool till September 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	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 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 (3.05%). 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, 2024, VFPL had managed assets of Rs. 1,702 crore.

Key financial indicators (audited)

	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
Gross Stage 3 (%)	12.0%	8.4%	2.8%
CRAR (%)	55.4%	58.9%	40.5%

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)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
							Oct 22, 2024	Oct 30, 2023	
1	Patshala 05 2022	PTC Series A1	38.78	1.44	[ICRA]AA+(SO)	[ICRA]A-(SO)	[ICRA]A-(SO)	Provisional [ICRA]A-(SO)	--

*Initial rating assigned

Complexity level of the rated instruments

Trust name	Instrument	Complexity Indicator
Patshala 05 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 (p.a.p.m)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Patshala 05 2022	PTC Series A1	30 June 2022	12.00%	20 April 2027	1.44	[ICRA]AA+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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