

Rating Rationale

August 07, 2024 | Mumbai

Varthana Finance Private Limited 'CRISIL BBB/Stable' assigned to Non Convertible Debentures

Rating Action

Total Bank Loan Facilities Rated	Rs.200 Crore
Long Term Rating	CRISIL BBB/Stable (Reaffirmed)

Rs.150 Crore Non Convertible Debentures	CRISIL BBB/Stable (Assigned)
Rs.200 Crore Non Convertible Debentures	CRISIL BBB/Stable (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL BBB/Stable**' rating to Rs.150 crore of non-convertible debentures of Varthana Finance Private Ltd (Varthana; formerly Thirumeni Finance Pvt Ltd) and reaffirmed its '**CRISIL BBB/Stable**' rating on the existing long term bank facility and non-convertible debentures.

The rating factors in the company's healthy capitalisation metrics supported by regular capital raising and experience of the promoters in the school finance industry. These strengths are partially offset by the modest, albeit improving, asset quality and overall earnings profile constrained by higher credit costs.

Varthana specializes in financing of affordable private schools and is one of the very few formal lenders in the business of school financing. The company has also started student finance loans in fiscal 2019, which formed around 12% of the overall loan portfolio as on March 31, 2024. The company witnessed a growth of 37% during fiscal 2024 with assets under management (AUM) increasing to Rs 1,281 crore as on March 31, 2024, from Rs 938 crore as on March 31, 2023. The company aims to continue with a similar growth rate in the near term. While Varthana has been able to secure a few sanctions from banks recently, the share of bank funding stood at only 6% as a percentage of overall borrowings. Hence, the company's ability to raise funds from banks on a continued basis and at optimal costs will remain key to their growth.

Analytical Approach

CRISIL Ratings has analysed the standalone business and financial risk profile of Varthana.

Key Rating Drivers & Detailed Description

Strengths:

- **Healthy capitalisation metrics supported by regular capital raising:** The company has healthy capitalisation metrics with network of Rs 538 crore and gearing of 2.2 times as on March 31, 2024. This has been supported by regular capital infusions with the latest being Rs 105 crore in June 2021. Gearing over the last 5 years has not exceeded 2 times. The company is expected to continue to follow a conservative leverage philosophy over the next couple of years. Over the longer term, the steady-state gearing is not expected to cross 5 times.

The tier-1 and total capital ratio of the company was 41.06% and 41.06%, respectively, as on March 31, 2024. The network to net non-performing asset (NPA) was also comfortable at 41 times as on same date. CRISIL Ratings believes Varthana is adequately capitalised, and any additional proposed capital infusion would further enhance the company's ability to absorb any asset side risks in the medium term.

- **Significant experience of the promoters in the school finance industry:** Varthana is involved in financing of affordable private schools, which is a niche segment of operations. The founders of Varthana, Mr Steve Hardgrave and Mr Brajesh Mishra have significant experience in this asset class due to their previous association in similar lines of business. The key personnel in top management have been associated with the financial services industry at various levels including collections, backend operations, credit and legal and have extensive experience in running the finance business.

Given their significant experience, the management of Varthana has been able to put in place an elaborate credit policy, prudent loan monitoring process and provisioning policy given the nature of the loans. The management is also focused on building good governance systems. It has an experienced board with three independent directors and has appointed reputable auditors.

The company's AUM stood at Rs 1281 crore as on March 31, 2024. CRISIL Ratings believes that the experience of the promoters and management will stand Varthana in good stead as it scales up its portfolio over the medium term.

Weaknesses:

- **Modest, albeit improving, asset quality:** While Varthana's asset quality metrics have been healthy historically with gross non-performing asset (GNPA) ratio below 2.0%, the pandemic resulted in the deterioration of the same. As a result, the 90+ dpd increased to 11.04% as on March 31, 2022. However, with conditions returning to normalcy post pandemic as well as the significant amount of write-offs undertaken by the company, the 90+ days past due (dpd) has improved to 2.32% as on March 31, 2024, as against 6.72% as on March 31, 2023 and 11.04% as on March 31, 2022. The improvement in asset quality was on account of improved collections post pandemic as well as the significant amount of write-offs undertaken by the company. Fiscal 2023 saw the company writing-off its portfolio to the tune of Rs 104.6 crore and an additional Rs 21 crore was written off during fiscal 2024. However, Varthana has also managed to recover a significant amount from these written-off accounts. In any case, incremental disbursements done post Covid have performed better, and the majority of the stress is from the portfolio originated before or during Covid.

The company has also undertaken a restructuring of Rs 195 crore, which has partly been run down and partly written off. As on March 31, 2024, this book stood at Rs 42 crore. CRISIL Ratings notes that a sizeable amount of the overall 90+ dpd (2.3%) stems from this restructured book, which had a 90+ dpd of 14%.

The overall collection efficiency has also improved significantly since the pandemic but remains below pre-pandemic levels. Hence, Varthana's ability to control slippages, maintain healthy collections (including from restructured book) and recover from written-off account to improve overall asset quality metrics will remain a key monitorable and a rating sensitivity factor.

- **Improving profitability, however constrained by high credit costs:** Varthana has a healthy pre-provisioning operational profitability (PPOP) marked by high gross spreads and moderate operating costs. Since it operates in a niche segment of school financing and at lower ticket sizes (more than 80% of loan book is of less than Rs 3 crore), it faces moderate competition from banks or other non-banking finance companies (NBFCs). Consequently, average yield on the loan book is 18-19%. With leverage being low, Varthana's total income margin (net-off interest expenses as a percentage of average total managed assets; ATMA) is strong at 13.5% for fiscal 2024.

The company follows a hub and spoke model for ground level operations and is present in 16 states. The company's operating costs has seen an increase on account of expenses incurred towards setting up the technology for the student loan business and stood at 12% for fiscal 2024. The operating expenses are expected to improve in the medium term as the company achieves economies of scale. Nevertheless, due to the high gross spreads, the overall pre-provisioning operating profit (PPOP) has remained healthy over 6.8% of ATMA for fiscal 2024.

Nevertheless, credit costs as a percentage of total managed assets have remained high at an average of 3.5% over the last three fiscals (4.7% for fiscal 2024) on account of slippages in asset quality arising from pandemic induced stress. As a result, overall profitability has remained subdued for fiscal 2023 and fiscal 2022. Profitability witnessed improvement in fiscal 2024 on the back of recovery from bad debts. The company reported a PAT of Rs 31 crore during fiscal 2024 and RoMA of 2.2% as compared to Rs 5.4 crore and 0.5%, respectively, as on March 31, 2023.

The company's ability to control credit costs and improve operational efficiency, thereby enhancing the overall earnings profile, will remain a key rating sensitivity factor.

Liquidity: Adequate

Asset-liability maturity profile of Varthana is comfortable with cumulative positive mismatches across buckets of up to one year as on March 31, 2024. The overall liquidity position (cash, liquid investments and unutilised working capital lines) of the company was Rs 270 crore as on, June 30, 2024, providing a liquidity cover of 2 times for upcoming three months of repayments

Outlook: Stable

CRISIL Ratings believes Varthana will benefit from its experienced promoters and management team and will maintain its healthy capitalisation metrics going ahead

Rating Sensitivity factors

Upward factors

- Improvement in profitability with RoMA above 2% on a sustained basis
- Sustainability of GNPA below 5% over the medium term
- Increase in scale of operations while maintaining credit and operational costs, thereby improving earnings profile

Downward factors

- Shortfall in collections, thereby impacting asset quality and credit costs
- Increase in steady state gearing above 5 times in the medium term
- Profitability metrics remaining subdued below current levels

About the Company

VIPL is a non-deposit non-systemically important NBFC engaged in financing affordable private school owners by providing loan capital so they can expand their infrastructure, invest in teacher-training, and introduce new learning methods into their classrooms. Varthana started its operations in January 2013 in Bengaluru after its promoters acquired an erstwhile NBFC. Varthana is currently operating with 38 branches and has presence in 16 states. The company had also started student loans product recently and it formed around 12% of the overall loan portfolio as on March 31, 2024. In February 2024, the

company has acquired Rs 126 crore school funding portfolio of Indian School Finance Company (ISFC) comprising over 800 schools.

Key Financial Indicators

Particulars	Unit	2024	2023	2022	2021	2020
Total Assets	Rs crore	1,643	1,130	1,049	1,164	1,217
AUM	Rs crore	1,281	938.4	958	1,045	1,104
Total Income (after finance cost)	Rs crore	284	123	111	108	123
Profit after tax	Rs crore	30.9	5.44	2.52	(7.69)	15
90+ days past due (dpd)	%	2.3	6.7	11.2	2.4	6.4
Gearing	Times	2.0	1.2	1.1	1.9	2.0
Return On Managed Assets	%	2.2	0.5	0.2	(0.6)	1.3

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity	Rating assigned with outlook
NA	Non-Convertible Debentures*	NA	NA	NA	150	Simple	CRISIL BBB/Stable
NA	Non-Convertible Debentures*	NA	NA	NA	66	Simple	CRISIL BBB/Stable
INE125T07238	Non-Convertible Debentures	11-Dec-2023	13.65	25-Sep-2027	17	Complex	CRISIL BBB/Stable
INE125T07246	Non-Convertible Debentures	14-Dec-2023	12.75	14-Dec-2025	15	Simple	CRISIL BBB/Stable
INE125T07253	Non-Convertible Debentures	27-Dec-2023	12.25	27-Dec-2025	30	Simple	CRISIL BBB/Stable
INE125T07261	Non-Convertible Debentures	27-Feb-2024	12.3	27-Feb-2027	25	Complex	CRISIL BBB/Stable
INE125T07279	Non-Convertible Debentures	16-May-2024	11.4	16-May-2030	27	Complex	CRISIL BBB/Stable
INE125T07287	Non-Convertible Debentures	12-Jul-2024	11.25	12-Jul-2026	20	Simple	CRISIL BBB/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	59.65	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	05-Dec-2025	23.22	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Jun-2026	41.67	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	30-Sep-2026	7.74	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	31-Aug-2025	5.83	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	18-Jun-2026	31	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	03-Oct-2024	0.89	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	21-Dec-2026	20	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	25-May-2026	10	NA	CRISIL BBB/Stable

*Yet to be issued

Annexure - Rating History for last 3 Years

	Current	2024 (History)	2023	2022	2021	Start of 2021

Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	200.0	CRISIL BBB/Stable	27-03-24	CRISIL BBB/Stable	29-12-23	CRISIL BBB/Stable		--		--	--
			--	10-01-24	CRISIL BBB/Stable	05-12-23	CRISIL BBB/Stable		--		--	--
			--		--	01-12-23	CRISIL BBB/Stable		--		--	--
Non Convertible Debentures	LT	350.0	CRISIL BBB/Stable	27-03-24	CRISIL BBB/Stable	29-12-23	CRISIL BBB/Stable		--		--	--
			--	10-01-24	CRISIL BBB/Stable	05-12-23	CRISIL BBB/Stable		--		--	--
Short Term Non Convertible Debenture	ST		--		--		--		--	09-09-21	Withdrawn	CRISIL A2+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Long Term Bank Loan Facility	59.65	Not Applicable	CRISIL BBB/Stable
Term Loan	7.74	Suryoday Small Finance Bank Limited	CRISIL BBB/Stable
Term Loan	41.67	IDFC FIRST Bank Limited	CRISIL BBB/Stable
Term Loan	23.22	ESAF Small Finance Bank Limited	CRISIL BBB/Stable
Term Loan	5.83	ICICI Bank Limited	CRISIL BBB/Stable
Term Loan	31	AU Small Finance Bank Limited	CRISIL BBB/Stable
Term Loan	0.89	Jana Small Finance Bank Limited	CRISIL BBB/Stable
Term Loan	20	Utkarsh Small Finance Bank Limited	CRISIL BBB/Stable
Term Loan	10	Bandhan Bank Limited	CRISIL BBB/Stable

Criteria Details

Links to related criteria
Rating Criteria for Finance Companies
CRISILs Bank Loan Ratings - process, scale and default recognition

Media Relations	Analytical Contacts	Customer Service Helpdesk
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Ajit Velonie Senior Director CRISIL Ratings Limited B: +91 22 3342 3000 ajit.velonie@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Malvika Bhotika Director CRISIL Ratings Limited B: +91 22 3342 3000 malvika.bhotika@crisil.com	For Analytical queries: ratingsinvestordesk@crisil.com
	Shruti Hazari Manager CRISIL Ratings Limited B: +91 22 3342 3000 shruti.hazari@crisil.com	

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