Varthana Finance Private Limited

October 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	50.00	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the proposed short-term debt instrument of Varthana Finance Private Limited (VFPL) derives strength from the established track record and experience of promoters in the school finance industry, adequate capitalisation levels supported by regular equity raise from promoters and investors. The rating takes note of improvement in asset quality position witnessed in FY24, however, this continues to remain moderate. These strengths are partially offset by the modest scale of operations and product concentration risk, limited track record of operations in student loan segment, low profitability levels and moderate resource profile of the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors that could, individually or collectively, lead to positive rating action/upgrade

- Significant increase in scale of operations with overall gearing maintained below 3.5x.
- Improvement in profitability with return on total assets (ROTA) of above 2% on a sustained basis.

Negative factors- Factors that could, individually or collectively, lead to negative rating action/downgrade

- Increase in gross non-performing asset (GNPA) levels resulting in losses.
- Increase in overall gearing above 4x on a sustained basis.

Analytical approach:

Standalone

Detailed description of key rating drivers:

Key strengths

Established track record and experience of the promoters in the school finance industry

VFPL has an established track record of over 10 years in school financing segment. The company also launched student loan financing from FY18. Founders, Steven Edwin Hardgrave and Brajesh Mishra, have significant experience in this asset class due to their previous association in similar asset class. Promoters are assisted by management team with extensive experience in the financial services industry.

Comfortable capitalisation levels supported by regular equity raise

VFPL's total tangible net worth base (after netting off deferred tax asset of ₹23.2 crore and intangible assets of ₹6.5 crore) stood at ₹509 crore as on June 30, 2024, supported by equity raise of ₹453.6 crore from founders and institutional investors. VFPL's institutional investors include Chryscapital, Lightrock, Kaizen Private Equity, Omidyar Network, Elevar Equity, Blue Haven and Potencia Ventures. Further, with slowdown in growth considering Covid period, reliance on borrowings has been lower and gearing levels (total borrowings/tangible net worth) stood comfortable at 2.08x as on March 31, 2024, which increased to 2.26x as on June 30, 2024, with pickup in growth. The company's capital adequacy levels remained comfortable with capital adequacy requirements (CAR) of 33.17% as on June 30, 2024. Going forward, CARE Ratings Limited (CARE Ratings) expects overall gearing to remain comfortable in the medium term.

Key weaknesses

Moderate scale of operations and product concentration risk

Scale of operations stood moderate at assets under management (AUM) of ₹1,390 crore as on June 30, 2024, however, is a niche player in the school financing segment. As on June 30, 2024, education institution loan segment forms 83.5% overall portfolio. VFPL being primarily present in education institution loans, expose to sector concentration risk as witnessed in Covid period

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

impacting the company's disbursements and asset quality with high write-offs. The company is gradually diversifying in the student loan segment, which constitutes ~16.5% of AUM as on June 30, 2024, which is a shorter-term loan product, however, this is unsecured. Performance of this product across different economic cycles remains to be seen.

Low profitability levels

VFPL reported profit after tax (PAT) of ₹31 crore on total income of ₹284 crore in FY24 against profit of ₹5 crore on total income of 187 crore in FY23. Improvement in profits in FY24 was primarily due to net gain recognised on sale to ARCs of ₹31.3 crore in FY24 (FY23: Nil). Further, the company also had affected higher bad debt recoveries of ₹31.4 crore in FY24 against ₹17.4 crore in FY23. The company's opex / average tangible assets stood lower at 6.95% in FY24 against 7.92% in FY23 aided by growth in scale of operations. However, provisions/average tangible assets stood higher at 3.87% in FY24 against 3.06% in FY23, leading to reported ROTA (PAT/ tangible total assets) of 2.28% in FY24 against 0.51% in FY23. In Q1FY25, profitability continued to remain moderate with PAT of ₹1 crore on total income of ₹65 crore with ROTA of 0.32%. The company's ability to source funds at competitive rates and keep operational expenses under control with the company being in growth phase would be critical to attaining healthy profitability and would drive growth prospects.

Moderate asset quality

VFPL's asset quality severely impacted considering Covid, which led to closure of educational institutions leading to high non-performing assets (NPA) levels in FY22. The company has been able to gradually bring down NPA levels in the last two FYs with recoveries, write-offs and sale to ARCs. GNPA% and NNPA% improved from 12.07% and 5.92%, respectively as on March 31, 2022, to 8.35% and 5.86% as on March 31, 2023, which further improved to 3.03% and 1.06% as on March 31, 2024. GNPA% and NNPA% stood at 3.62% and 1.92%, respectively as on June 30, 2024. Furthermore, delinquency in school loan portfolio primarily corresponds to pre-covid book and NPA on post covid book is negligible. The share of restructured portfolio outstanding also decreased to 2.79% of gross advances as on June 30, 2024, against 20.12% as on March 31, 2022. Majority loan book growth in student loan segment came in FY24 although the product was launched in FY18, hence, the track record of operations over the cycle remains to be seen, and seasoning of the portfolio remains limited. Going forward, with the company focussing on higher proportion of unsecured student loan portfolio, the company's ability to contain credit cost remains critical for improvement of asset quality and to protect the company's earnings profile.

Moderate resource profile

The company's borrowing profile is moderate with limited share of borrowings from banking channels. Major share of borrowings stood in the form of term loan from NBFCs forming 34.5% of borrowings. Resource profile improved in FY24 and Q1FY25 with increasing share of borrowings from banking channels which formed 12.1% of overall borrowings as on June 30, 2024. Further, the company has been able to borrow through ECB, NCDs and securitisation forming 23.1%, 21.1% and 9.2% of borrowings, respectively as on June 30, 2024. The company had lender network of 29 lenders (excluding PTC and ECB lenders) as on June 30, 2024.

Liquidity: Adequate

Per asset liability maturity (ALM) statement of June 30, 2024, the company's liquidity profile is adequate with no negative cumulative mismatch in its less than 1-year tenor bucket aided by adequate liquidity position maintained by the company. The company had cash and bank balance of ₹29 crore and non-lien marked fixed deposits of ₹100 crore as on June 30, 2024. Further, the company had liquid investments of ₹122 crore as on June 30, 2024, against debt repayments of ₹192 crore in the next six months.

Applicable criteria

Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Policy on Default Recognition
Financial Ratios – Financial Sector
Non-Banking Finance Companies
Short-Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Finance	Non Banking Financial Company (NBFC)

VFPL is a non-deposit accepting non-banking finance company headquartered in Bengaluru. VFPL was founded by Steven Edwin Hardgrave and Brajesh Mishra, who have extensive experience in financial services sector. Varthana started operations after its promoters acquired an erstwhile NBFC, Thirumeni Finance Private Limited, in May 2012. School financing operations under the brand Varthana was started in January 2013. VFPL is engaged in financing private schools for improvement, capacity expansion and growth requirements. Further, the company also launched student loan financing in June 2018. As on June 30, 2024, the company's operations are across 16 states with branch network of 41 branches with AUM of ₹1390 crore.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	187	284	65
PAT	5	31	1
Total tangible assets	1,096	1,614	1,748
Net NPA (%)	5.86	1.06	1.92
ROTA (%)	0.51	2.28	0.32

A: Audited; UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	Proposed	-	-	-	50.00	CARE A3+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Commercial Paper-Commercial Paper (Standalone)	ST	50.00	CARE A3+				

ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details: Not applicable

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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