

Press Release

Varthana Finance Private Limited

May 11, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	120.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	120.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 120.00 crore proposed Non-Convertible Debentures facilities of Varthana Finance Private Limited (VFPL). The outlook is '**Stable**'.

Rationale for the Rating

The rating considers the experience of the management in school financing segment, along with comfortable capital base aided by capital infusion from a mix of new and existing institutional investors. VFPL has raised equity in the form of CCPS to the tune of Rs. 105.00 Cr. in FY2022. The capital adequacy ratio as on November 30, 2022 stood at 56.44 percent consisting of Tier I CAR of 55.32 percent with gearing levels of 1.36 times as on September 30, 2022.

These strengths are partially offset by the elevated asset quality stress in the portfolio due to the COVID-19 pandemic. The GNPA as on March 31, 2022 rose to 12.07 percent from 2.90 percent as on March 31, 2021. The company restructured the loans of ~20 percent of its portfolio as a part of COVID-19 restructuring, which as on December 31, 2022 stood at 14.57 percent. Further, VFPL's profitability remained subdued with losses of Rs. 7.69 Cr. for FY21 as against profits of Rs. 15.28 Cr. in FY20 (PAT of Rs. 3.42 Cr. for FY2022) on account of high credit costs.

Going forward, the ability of the company to contain asset quality pressures while scaling up the portfolio along with improving the profitability will remain a key rating monitorable.

About the company

Varthana Finance Private Limited is a non-deposit taking non-banking financial company incorporated in 1984. It commenced financing operations in 2013 post acquisition of the company by the current promoters, Mr. Steve Hardgrave and Mr. Brajesh Mishra. VFPL extends credit mainly through secured and unsecured loans to private schools for expansion purposes. The company has 38 branches with presence across 15+ states and Assets Under Management (AUM) of Rs. 874.97 Cr. as on November 30, 2022. As on March 31, 2022, the promoters held an 10.56 percent stake in the company with the balance held by institutional investors (83.60 percent) and others.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of VFPL to arrive at the rating.

Key Rating Drivers

Strength

Experienced management

VFPL has an experienced management team led by Mr. Steve Hardgrave, CEO and Executive Director, Mr. Brajesh Mishra, COO and Executive Director who have relevant experience in the business segment of school financing. Mr. Hardgrave had worked in early stage venture funds which target social purpose businesses. Mr. Mishra has close to two decades of experience in retail banking, rural, and agri-lending and automotive finance at ICICI Bank. In addition, the company is backed by institutional investors such as ChrysCapital, Elevar Equity, LightRock, Kaizen PE among others. The board is further supported by Mr. Sunil Gulati, Independent Director who has around three decades of experience in the banking industry. Acuité believes that VFPL's business profile will be supported by its experienced promoters and investors and will be able to leverage their expertise to raise funding and grow its loan book.

Comfortable capitalization

VFPL has an overall CAR of 56.44 percent consisting of Tier I CAR of 55.32 percent as on November, 2022 along with comfortable gearing of 1.36 times as on September, 2022 which provides adequate headroom for company to pursue future growth plans. The networth of the company stood at Rs. 375.64 Cr. as on September 30, 2022. In FY22, capital infusion of Rs. 105 Cr. via Series C One round from a mix of existing and new investors has further supported the capital base. However, on account of pending conversion of these CCPS shares, the same has not been factored in the networth as on September 30, 2022.

Going ahead, Acuité expects VFPL to benefit from its continuous support from external investors, hereby maintaining adequate capitalisation.

Weakness

Moderate scale of operations

The company extends credit to private schools via secured and unsecured loans with major chunk of the portfolio being secured loans (~80%). On account of COVID-19 impact, the company had adopted a cautious approach resulting in low disbursements for FY21 and FY22. The same is reflected by decrease in AUM from Rs. 1,044.77 Cr. as on March 31, 2021 to Rs. 874.97 Cr. as on November 30, 2022. The decrease is also due to the credit costs as the company is making significant write offs as a measure of book clean up. The disbursements for 9MFY23 stood at Rs. 225.97 Cr. as against FY22 disbursements of Rs. 118.65 Cr. As per management, the disbursement momentum is expected to gain traction in H2FY23.

Stressed asset quality

VFPL's on time portfolio declined from 86.52 percent as on March 31, 2021 to 67.51 percent as on March 31, 2022. Subsequently, the GNPA worsened to 12.07 percent as on March 31, 2022 as against 2.90 percent as on March 31, 2021. The company had restructured loans of ~20 percent of its portfolio as a part of COVID-19 restructuring. The restructured book as a percentage of AUM stood at 20.21 percent as on March 31, 2022 (14.57 percent as on December 31, 2022). Further, the recoverability of dues from the stressed accounts is envisaged to be time consuming due to the nature of the collateral. On account of write-offs made in FY22 and 8MFY23, the GNPA has reduced to 8.91 percent as on November 30, 2022. The collection efficiency for current month due remained moderate at a range of 63-68 percent for three months ended December 31, 2022, which although has improved slightly from 56-57 percent levels during Q1FY23.

Going forward, the ability of the company to improve the asset quality while limiting additional slippages would be a key monitorable.

Subdued profitability

The company's profitability remained subdued with losses of Rs. 7.69 Cr. for FY21 as against profits of Rs. 15.28 Cr. in FY20 due to elevated credit costs. In FY22, the PAT stood moderate at Rs. 3.42 Cr. Further, due to write offs in 9MFY23, the losses stood at Rs. 54.29 Cr. The profitability remains susceptible to the additional credit costs pertaining to the slippages in the outstanding restructured portfolio.

Acuite believes that the company's ability to contain asset quality pressures while improving its profitability parameters will be a key rating monitorable.

ESG Factors Relevant for Rating

VFPL belongs to the NBFC sector which complements bank lending in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and social development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. VFPL offers financial services for private schools for expansion purposes. The company has a well-placed grievance redressal mechanism; it has made adequate disclosures with respect to related party transactions. It also adheres to Reserve Bank of India's Fair Practices Code and has the necessary interest rate and grievance redressal policies. The company's board comprises of three independent directors out of total nine directors. VFPL supports community development through CSR projects mainly aimed at promotion of education, eradication of hunger, environmental sustainability, promoting gender equality and empowering women among other causes.

Rating Sensitivity

- Ability to raise funds
- Movement in profitability metrics
- Movement in asset quality and collection efficiency

Material Covenants

VFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among the others.

Liquidity Position

Adequate

VFPL has adequately matched asset-liability profile as on December 31, 2022 with no negative cumulative mismatch in near to medium term. The company has maintained cash and bank balances of Rs 39.62 Cr. along with short term liquid funds in the form of FDs to the tune of Rs. 65.02 Cr. as on December 31, 2022.

Outlook: Stable

Acuite believes that VFPL will maintain 'Stable' outlook over the near to medium term owing to the experience of the management and backing of investors. The outlook may be revised to 'Positive' in case VFPL demonstrates significant and sustainable growth in its scale of operations while mitigating asset quality risks in portfolio. Conversely, the outlook may be revised to 'Negative' in case of any challenges faced in scaling up operations, resource raising ability and in case of any sharp deterioration in asset quality and profitability levels.

Other Factors affecting Rating

Not applicable

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs. Cr.	1016.07	1139.13
Total Income*	Rs. Cr.	111.09	108.04
PAT	Rs. Cr.	2.52	(7.69)
Net Worth	Rs. Cr.	390.43	386.67
Return on Average Assets (RoAA)	(%)	0.23	(0.66)
Return on Average Net Worth (RoNW)	(%)	0.65	(1.95)
Debt/Equity	Times	1.36	1.92
Gross NPA	(%)	12.07	2.90
Net NPA	(%)	5.53	1.40

*Total income equals to Net Interest Income plus other income.

Status of non-cooperation with previous CRA (if applicable):

Not applicable

Any other information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Banks And Financial Institutions: <https://www.acuite.in/view-rating-criteria-45.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Non Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple	120.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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