



Press Release
Varthana Finance Private Limited
May 09, 2024
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed the long-term rating of **'ACUITE BBB-'** (read as **ACUITE triple B minus**) to the Rs. 120.00 crore 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. The capital adequacy ratio as on December 31, 2023 stood at 39.28 percent with gearing levels of 1.66 times as on December 31, 2023.

These strengths are partially offset by the elevated asset quality stress in the portfolio due to the COVID-19 pandemic. The GNPA as on December 31, 2023 improved to 6.88 percent from 8.35 percent as on March 31, 2023. The company restructured the loans of ~20 percent of its portfolio as a part of COVID-19 restructuring which as on December 31, 2023 stood at 6.23 percent. Further, VFPL's profitability stood at Rs 14.09 Cr. for December 31, 2023 as against profits of Rs. 5.4 Cr. in FY23.

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. 1115.9 Cr. as on December 31, 2023.

Unsupported Rating

Not Applicable

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. 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 39.28 percent as on December 31, 2023 along with comfortable gearing of 1.66 times as on December 31, 2023 which provides adequate headroom for company to pursue future growth plans. The networth of the company stood at Rs.417.5 Cr. as on December 31, 2023.

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

Weakness

Stressed asset quality

VFPL's on time portfolio in December 31, 2023 stood at 75.8 percent from 73.2 percent as on March 31, 2022. Subsequently, the GNPA improved to 6.88 percent as on December 31, 2023 as against 8.35 percent as on March 31, 2023. 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 6.23 percent as on December 31, 2023 (10.24 percent as on March 31, 2023). Further, the recoverability of dues from the stressed accounts is envisaged to be time consuming due to the nature of the collateral. The collection efficiency for current month due stood in a range of 73-75 percent for six months ended December 31, 2023.

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 stood at Rs 14.09 Cr during the nine months of fiscal 2024. 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

Liquidity Position Adequate

VFPL has adequately matched asset-liability profile as on December 31, 2023 with no negative cumulative mismatch in near to medium term. The company has maintained cash and bank balances of Rs 18.39 Cr as on December 31, 2023.

Outlook: Stable

Acuité 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

None

Key Financials - Standalone / Originator

Particulars	Unit	FY23(Acutual)	FY22 (Actual)
Total Assets	Rs. Cr.	1100.38	1016.07
Total Income*	Rs. Cr.	123.22	111.09
PAT	Rs. Cr.	5.44	2.52
Net Worth	Rs. Cr.	402.61	390.43
Return on Average Assets (RoAA)	(%)	0.51	0.23
Return on Average Net Worth (RoNW)	(%)	1.37	0.65
Debt/Equity	Times	1.47	1.36
Gross NPA	(%)	8.35	12.07
Net NPA	(%)	5.86	5.53

*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, Acuité 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 May 2023	Proposed Non Convertible Debentures	Long Term	120.00	ACUITE BBB- Stable (Assigned)

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	INE125T07196	Non-Convertible Debentures (NCD)	16 May 2023	11.00	30 Jun 2024	Simple	8.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	INE125T07188	Non-Convertible Debentures (NCD)	16 May 2023	12.00	31 Dec 2024	Simple	12.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	INE125T07204	Non-Convertible Debentures (NCD)	16 May 2023	13.00	31 May 2026	Simple	20.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	INE125T07220	Non-Convertible Debentures (NCD)	30 Sep 2023	13.50	25 Sep 2026	Simple	25.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	INE125T07212	Non-Convertible Debentures (NCD)	07 Aug 2023	13.17	07 Aug 2028	Simple	20.70	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Non Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	34.30	ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Ramesh Metri Associate-Rating Operations Tel: 022-49294065 ramesh.metri@acuite.in	

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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