



Press Release
Varthana Finance Private Limited
December 18, 2024
Rating Upgraded and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	77.70	ACUITE BBB Stable Upgraded	-
Non Convertible Debentures (NCD)	42.30	Not Applicable Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	77.70	-	-
Total Withdrawn Quantum (Rs. Cr)	42.30	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple Bf**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on Rs 77.70 crore Non-Convertible Debentures facilities of Varthana Finance Private Limited (VFPL). The outlook is '**Stable**'.

Acuite has withdrawn the long-term rating on Rs. 8 Cr. Non-Convertible Debentures facilities of Varthana Finance Private Limited (VFPL) without assigning any rating as the instrument is fully repaid. The rating is being withdrawn on account of request received from the company and NOC (No Objection Certificate) received from the trustee. Acuite has withdrawn the long-term rating on the Rs. 34.30 Cr. Non-Convertible Debentures facilities of Varthana Finance Private Limited (VFPL) without assigning any rating as it is a proposed facility. The rating is being withdrawn on account of request received from the company.

The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating as applicable to the respective facility / instrument.

Rationale for the Rating

The rating upgrade is on account of improvement in asset quality and adequate capitalisation level of Varthana Finance Private Ltd. The Asset quality improved as it continues to recover from the Covid-19 pandemic-related stress. The GNPA improved to 2.9 percent in H1FY25 as compared to 3.03 percent as on March 31, 2024 (8.35 percent as on March 31, 2023). The company has adequate capitalisation level marked by CAR of 31 percent in H1FY25 (40.70 percent in FY24 and 57.06 percent in FY23). The increase in Networth from Rs 402.61 Cr. in FY23 to Rs 537.50 Cr. in FY24 is due to equity infusion of Rs 105 crore in June 21 as C1 CCPS Series. In February 2024, Varthana took over the entire portfolio of Indian School Finance Company Private Limited (ISFC), which included loans amounting to Rs 126 crore and Security Receipts worth Rs 34.73 crore. While Varthana continues to focus on school loans, it has also grown its student loan segment. The rating continues to factor 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. These strengths are partially offset by product concentration risk and limited operational history. 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

Based in Bangalore, 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 41 branches with presence across 15+ states and Assets Under Management (AUM) of Rs. 1498.3 Cr. as on March 31 2024.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité 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 40.70 percent as on March 31, 2024 and gearing of 1.96 times (57.06 percent along with comfortable gearing of 1.47 times as on March 31, 2023 which provides adequate headroom for company to pursue future growth plans. The networth of the company stood at Rs.537.50 Cr. as on March 31, 2024. (Rs 542 Cr. in September 30, 2024)

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

Weakness

Moderate asset quality; albeit improving

VFPL's on time portfolio stood at 88.7 percent in September 30, 2024 as against 87.2 percent as on March 31, 2024. Subsequently, the GNPA improved to 2.90 percent as on September 30, 2024 as against 3.03 percent as on March 31, 2024. Going forward, the ability of the company to improve the asset quality while limiting additional slippages would be a key rating monitorable.

Subdued profitability

The company reported a PAT of Rs 5.80 Cr. in H1FY25 as against a PAT of Rs .30.89 Cr in FY24. The improvement in PAT in FY24 is on the back of recovery from bad debts and proceeds from ARC deal of Rs 80 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 equity funds
- Movement in profitability metrics
- Movement in asset quality and collection efficiency

Liquidity Position

Adequate

VFPL has adequately matched asset-liability profile as on September 30, 2024 with no negative cumulative mismatch in near to medium term. The company has maintained cash and bank balances of Rs 108.38 Cr. and Rs 67.22 Cr. of unencumbered Mutual fund investments as on September 30, 2024 with total liquidity of Rs, 175.6 Cr. as on September 30, 2024.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY24(Acutual)	FY23(Acutual)
Total Assets	Rs. Cr.	1621.19	1100.38
Total Income*	Rs. Cr.	188.51	123.22
PAT	Rs. Cr.	30.93	5.44
Net Worth	Rs. Cr.	537.50	402.61
Return or Average Assets (RoAA)	(%)	2.27	0.51
Return or Average Net Worth (RoNW)	(%)	6.58	1.37
Debt/Equity	Times	1.96	1.47
Gross NPA	(%)	3.03	8.35
Net NPA	(%)	1.06	5.86

*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
09 May 2024	Proposed Non Convertible Debentures	Long Term	34.30	ACUITE BBB- Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	8.00	ACUITE BBB- Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	12.00	ACUITE BBB- Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	20.00	ACUITE BBB- Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	25.00	ACUITE BBB- Stable (Reaffirmed)
	Non-Covertible Debentures (NCD)	Long Term	20.70	ACUITE BBB- Stable (Reaffirmed)
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	Quantum (Rs. Cr.)	Complexity Level	Rating
Not Applicable	INE125T07188	Non-Convertible Debentures (NCD)	16 May 2023	12.00	31 Dec 2024	12.00	Simple	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Not Applicable	INE125T07204	Non-Convertible Debentures (NCD)	16 May 2023	13.00	31 May 2026	20.00	Simple	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Not Applicable	INE125T07220	Non-Convertible Debentures (NCD)	30 Sep 2023	13.50	25 Sep 2026	25.00	Simple	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Not Applicable	INE125T07212	Non-Convertible Debentures (NCD)	07 Aug 2023	13.17	07 Aug 2028	20.70	Simple	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Not Applicable	INE125T07196	Non-Convertible Debentures (NCD)	16 May 2023	11.00	30 Jun 2024	8.00	Simple	Not Applicable Withdrawn
Not Applicable	Not avl. / Not appl.	Proposed Non-Convertible Debentures	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	34.30	Simple	Not Applicable Withdrawn

Contacts

Mohit Jain Senior Vice President-Rating Operations	Contact details exclusively for investors and lenders
Ramesh Metri Associate Analyst-Rating Operations	Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

About Acuité Ratings & Research

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