

CareEdge Global assigns Long Term Foreign Currency Rating of 'CareEdge B-/Stable' to Foreign Currency Bonds Issuance of Varthana Finance Private Limited

USD 50 million External Commercial Borrowing Bonds (Proposed)	CareEdge B-/Stable (Assigned)
USD 29 million External Commercial Borrowing Bonds	CareEdge B-/Stable (Reaffirmed)

CareEdge Global has assigned its foreign currency long-term rating of '**CareEdge B-/Stable**' to Varthana Finance Private Limited's (Varthana) USD 50 million External Commercial Borrowing (ECB) Bond issuance plan. CareEdge Global has also reaffirmed ratings on USD 29 million debt instruments at '**CareEdge B-/Stable**'.

Rating Rationale

The rating is primarily driven by established track record of promoters in the school finance sector and a comfortable capitalisation position. These credit strengths are, however, partially offset by a limited resource profile, low profitability, and modest asset quality metrics.

Varthana's Asset Under Management (AUM) increased to ~Rs 1,897 crore as of March 31, 2025, from Rs 1,281 crore as of March 31, 2024. The company reported a net profit of Rs 24 crore in FY25. Profit in FY24 was Rs 31 crore, which included one-time net gain on the sale of its non-performing assets (NPAs) assets to Asset Reconstruction Companies (ARCs). As the portfolio scale-up was largely debt funded, the company's borrowing level increased to Rs 1,712 crore as of March 31, 2025, from Rs 1,066 crore as of March 31, 2024, leading to an increase in gearing of 3.2x as of March 31, 2025 (PY: 2.1x). School-loan segment and student loan segments constitute about 85% and 15%, respectively, of AUM as on March 31, 2025. The share of student loan segment is expected to stay around 18-20% by end of FY26.

Key Rating Drivers

Strengths

Established track record of promoters in the school finance sector

The founders, Mr. Steve Hardgrave and Mr. Brijesh Mishra, have significant experience in educational financing. The promoters are supported by an experienced management team with experience in the financial services industry.

Varthana is primarily involved in financing education institution loans, mainly to affordable private schools, and has established a track record of more than a decade in the segment. These are primarily collateral-backed loans offered to private educational institutions (generally K-12 schools) for brownfield expansion and their working capital requirements.

The company also launched student loan financing in FY18. These loans are provided to students seeking upskilling or test preparation coaching in tie-ups with the institutions offering these courses. The company has also started extending personal loans to students who get jobs after completing their education, forming a recurring and continued loan.

Varthan's business risk profile will continue to benefit from its established track record in school finance sector and promoter's experience.

Comfortable capitalisation level

Varthana's capitalisation profile is comfortable with an overall capital adequacy ratio of 28.3% as of March 31, 2025, which remains well above the regulatory threshold. The strong capital base provides financial flexibility, enhances the company's risk-bearing capacity, and supports its ability to absorb shocks during economic stress. To support its growth plans, the company is planning to raise Rs 100 crore of equity in the next 1-2 quarters and larger quantum in fiscal 2027. Varthana's tangible net worth stood at Rs 528 crore¹ (US\$ 62 million) as of March 31, 2025, supported by equity raise in regular intervals. The company has large and diversified institutional investors, including Chryscapital, Lightrock, Kaizen Private Equity, Omidyar Network, Elevar Equity, Blue Haven and Potencia Ventures, on its cap table. Gearing increased to 3.2x as of March 31, 2025, from 2.1x as of March 31, 2024, given an increase in borrowings to scale up the portfolio.

CareEdge Global expects that, with its planned growth trajectory, the company will maintain a buffer of approximately 5-10% above the regulatory capitalisation requirements (currently over 13%), even if the expected equity infusion does not occur within the envisaged timelines. The gearing level is expected to remain in the range of 3 to 3.5x over the medium term.

Weaknesses

Limited resource profile leading to a higher cost of borrowing

Varthana continues to rely significantly on non-banking financial institutions (NBFIs) for its debt requirements, though this dependence has gradually reduced. As of March 31, 2025, borrowing from NBFIs reduced to ~30% of the total debt from ~40% as of March 31, 2024. Typically, these loans are at relatively high cost compared to other financing sources,

¹ Considering USD-INR exchange rate of 85.76 as on June 5, 2025

adversely impacting the company's profitability. Varthana's average borrowing cost stood at 12.3% as of March 31, 2025.

Varthana has improved its borrowing cost by ~100 basis points in FY25 and intends to further optimise its borrowing profile by increasing the amount of financing from banks, NCDs and international debt issuances. The pace of reduction in NBFIs borrowings is likely to be gradual, as a large portion of current borrowings are from NBFIs. Banking exposure stands at 11% of total borrowings as of FY25 which is expected to further increase in FY26.

Low profitability and modest asset quality

The company's low profitability is attributable to moderate spreads (5-6%) and high operating expenses. The company has taken several steps to improve profitability and expects RoA to cross 2% in FY26. These measures include reduction in borrowing costs, check on credit costs, attaining operational breakeven in student loan segment and increasing the share of student loan segment having higher yields. A sustained improvement in profitability is a key rating sensitivity factor. Varthana's return on assets (RoA) stood at 1.2% in FY25 as against 2.2% in FY24. The company's return on equity (RoE) of 4.6% in FY25 (PY: 7.1%) continues to remain modest.

Varthana has high operating expenses in the student loan segment, primarily due to upfront investments in technological infrastructure, which also adversely impacts profitability. However, with plans of expanding this segment, operating expenses are expected to reduce, leading to higher profitability going forward.

Varthana's school loan segment is exposed to small and mid-sized educational institutions, which often experience cash flow variability due to the seasonality of the academic cycle. Varthana experienced a significant deterioration in asset quality during the Covid-19 pandemic, due to the government-mandated closure of schools, which led to irregular fee collection. Varthana has strengthened collections efforts to improve its asset quality, reduce bad debt and NPAs. As a result, there has been an improvement over the last two fiscals with Gross NPA (GNPA) improving to 1.9% as of March 31, 2025, from 8.4% on March 31, 2023. Furthermore, Varthana has shown good recovery from loans written off in the past.

As Varthana intends to expand its student loan segment (unsecured) going forward, the sustenance of asset quality metrics over an extended period will remain a key monitorable.

Liquidity

Varthana's liquidity profile is moderate. The company has no negative cumulative mismatches in the up to one-year bucket. However, negative cumulative mismatches exist in more than one year's time bucket. The mismatch is due to the higher tenor of its major offering, i.e., school loan financing, with an average tenor of seven years, while borrowings have an average

tenor of two years. The mismatch is expected to continue for some time; however, as the proportion of student loans increases, with an average loan tenure of 18 months, the mismatch is expected to improve. Varthana keeps adequate liquidity (three months of repayments and operating expenses) through on-balance sheet liquidity and undrawn bank lines. As of March 31, 2025, the company had a cash, cash equivalents and liquid investments of Rs 328 crore.

Outlook: Stable

The stable rating outlook reflects CareEdge Global's expectation that Varthana will maintain comfortable capitalisation levels while reporting moderate growth in scale of operations over the medium term. Furthermore, Varthana's growth is expected to be supported by timely equity infusion.

Rating Sensitivities

Upward factors

- Significant increase in its scale of operations while improving profitability and overall gearing level below 3.5x
- Improvement and sustenance in asset quality, especially in the student loan segment

Downward factors

- Deterioration in capitalisation profile on a sustained basis
- Deterioration in liquidity profile
- Significant deterioration in asset quality

Environmental, Social and Governance (ESG) considerations

CareEdge Global observes that Varthana primarily engages in lending to businesses operating in semi-urban areas, actively promoting sustainable practices among its borrowers. This includes encouraging the efficient use of natural resources such as water and raw materials, alongside fostering initiatives for recycling and reuse, aligning with broader environmental sustainability goals.

From a social perspective, the company addresses critical social risks by providing funding to institutions involved in quality education for children. This approach empowers affordable schools in India by providing crucial financial support, helping them expand and improve educational opportunities for low-income students.

On the governance front, while the company demonstrates reasonable governance practices, further improvements in board composition and practices could enhance stakeholder confidence.

About the company

Varthana Finance Private Limited is a non-deposit accepting non-banking financial institution (NBFI) headquartered in Bengaluru. It was founded by Steven Edwin Hardgrave and Brajesh Mishra, who have extensive experience in education financing. Varthana started operations after its promoters acquired an erstwhile NBFI, Thirumeni Finance Private Limited, in May 2012. School financing operations under the brand Varthana were started in January 2013. The company is financing private schools for improvement, capacity expansion and growth requirements. These loans have an average ticket size of Rs 30 lakhs with an average tenure of 7 years. Further, the company also launched student loan financing in 2018. The average ticket size of student loans is Rs 1.1 lakhs with a tenure of 1.5 years.

As of March 31, 2025, Varthana's operations are spread across 15 states with a network of 41 branches and AUM of around Rs 1,900 crore. AUM growth has been aided by growth in the school financing portfolio, which forms 85% of the total AUM, while student loans contribute the rest. Currently, the contribution of personal loans to the overall AUM is negligible. The company has been raising equity capital from private equity investors and major shareholders, apart from the founders. The company has raised Rs 453 crore of equity from the founders and various institutional investors. Varthana's institutional investors are Chriscapital, Lightrock, Kaizen Private Equity, Omidyar Network, Elevar Equity, Blue Haven and Potencia Ventures.

Solicitation Status

These ratings are solicited. The management has provided information and meetings to the CareEdge Global analytical team for the rating.

Details of Instruments

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size	Rating
External Commercial Borrowing (proposed)	-	-	-	-	USD 50 million	CareEdge B-/ Stable
External Commercial Borrowing	INIFD0905023	November 24, 2024	450 basis points plus Term SOFR ²	November 27, 2028	USD 15 million	CareEdge B-/ Stable

² Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by treasury securities

External Commercial Borrowing	INIFD0905031	January 21, 2025	450 basis points plus Term SOFR	December 27, 2027	USD 12 million	CareEdge B-/Stable
External Commercial Borrowing (proposed)	-	-	-	-	USD 2 million	CareEdge B-/Stable

Rating History

Instrument	Type	Rating	Date
External Commercial Borrowing Bonds	Long-Term Foreign Currency (Solicited)	CareEdge B-/Stable (Reaffirmed)	June 05, 2025
External Commercial Borrowing Bonds	Long-Term Foreign Currency (Solicited)	CareEdge B-/Stable (Assigned)	December 24, 2024

Criteria Applied

[CareEdge Global's Rating Methodology for Financial Institutions](#)

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