

Varthana Finance Private Limited's rating placed on 'Credit Watch with Developing Implications'

USD 37 million External Commercial Borrowing Bonds	CareEdge B-/Credit Watch with Developing Implications
EUR 5 million External Commercial Borrowing Bonds	CareEdge B-/Credit Watch with Developing Implications
USD 36 million External Commercial Borrowing Bonds (proposed)	Withdrawn

CareEdge Global Ratings has placed its rating on Varthana Finance Private Limited's (Varthana) debt instruments on 'Credit Watch with Developing Implications' following the company's announcement of the proposed acquisition of its entire equity stake by Home Credit India Finance Private Limited (Home Credit). CareEdge Global has also withdrawn the rating assigned to the proposed USD 36 million external commercial borrowing (ECB) bonds, in line with its withdrawal policy and at the company's request.

On July 15, 2026, Varthana's Board of Directors approved the execution of a securities purchase agreement (SPA) among the company, its promoters, existing shareholders, and Home Credit in relation to the proposed acquisition. Home Credit, an 80.4% subsidiary of TVS Holdings Limited, is part of the TVS Venu Group. The proposed acquisition values Varthana's equity at approximately Rs 9.67 billion, subject to adjustments as per the SPA's terms. The proposed acquisition is subject to the receipt of requisite approvals from the Reserve Bank of India (RBI), completion of the conditions precedent set out in the SPA, and other statutory and regulatory approvals. Varthana's credit profile is likely to strengthen upon completion of the transaction. Therefore, we will continue to monitor the progress of the transaction and reassess Varthana's credit profile under the new ownership structure and operating strategy.

Key rating drivers

Strengths

Established track record of promoters in the school finance sector

The founders, Mr. Steve Hardgrave and Mr. Brajesh Mishra, have rich experience in the education financing domain, and are ably supported by an experienced management team that has relevant exposure to the financial services industry. For over a decade, Varthana has been providing collateral-backed loans to private educational institutions (generally K-12 schools) for brownfield expansion and working capital requirements. An established track record in the school finance sector and promoters' rich experience strengthen Varthana's business risk profile. The management has decided to exit student loan financing, which was

launched in June 2018 for upskilling or test preparation coaching, owing to high operating and credit costs.

Comfortable capitalisation level

Varthana's capitalisation profile is comfortable with a capital adequacy ratio (CAR) of 28.3% as of March 31, 2026, which is 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. Varthana's tangible net worth stood at Rs 5.7 billion as of March 31, 2026 (PY: Rs 5.3 billion) supported by equity raise at regular intervals. The company has large and diversified institutional investors such as Chriscapital, Lightrock, Kaizen Private Equity, Omidyar Network, Elevar Equity, Blue Haven, and Potencia Ventures.

Reduction in borrowings improved the gearing to 2.8x as of March 31, 2026, from 3.2x as of March 31, 2025. CareEdge Global expects the planned growth trajectory to ensure a buffer of approximately 5-7% above the regulatory capitalisation requirements (currently over 12%), assuming any required equity infusion as seen in the past. Gearing is expected to remain in the range of 3-3.5x over the medium term.

Weaknesses**Cost of borrowing remains high despite diversification in the resource profile**

Varthana continues to rely significantly on non-banking financial institutions (NBFIs) for debt, albeit it has gradually reduced—to ~37% of the total debt as of March 31, 2026 from ~56% as of March 31, 2025. Further reduction in the NBFI borrowings is expected. Typically, these loans are at a cost higher than other financing sources, adversely impacting the company's profitability.

Varthana intends to improve its borrowing cost by optimising its borrowing profile and increasing the amount of financing from banks, NCDs, and international debt issuances. Banking exposure stood at 13% of the total as of March 31, 2026 vs 11% as of March 31, 2025, which is expected to increase further in FY27.

Low profitability and modest asset quality

The company's low profitability is attributable to moderate spreads of (5-6%) and high operating expenses. Over the past two years, the company has taken several steps to improve profitability, including reduction in borrowing costs and phasing out of student loan book (from H2FY26), which will lower operating and credit costs. The student loan portfolio is expected to completely run down by FY27. Profit after tax was Rs 187 million in FY26, resulting in return on assets (RoA) of 0.8% compared with 1.2% in FY25. A sustained improvement in profitability is a key rating sensitivity factor.

Varthana has high operating expenses in the student loan segment, which also adversely impacts profitability. However, with planned closure of this segment, operating expenses are expected to be reduced, improving profitability going forward. Its 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 has strengthened collections efforts to improve its asset quality, reduce bad debt and non-performing assets (NPAs). As a result, gross NPA (GNPA) decreased to 1.9% as of March 31, 2025, from 2.8% on March 31, 2024. Furthermore, Varthana has shown good recovery from loans written off in the past. Increase in GNPA to 3.1% as on March 31, 2026, was owing to sharp rise in NPAs in the student loan segment. Asset quality is expected to improve as the company is running down this portfolio and has created provisions for the delinquent accounts.

Liquidity

Varthana's liquidity profile is moderate. The company has negative cumulative mismatches in the more-than-12-months bucket due to the higher tenor of school loan financing, with an average tenor of 5.5 years, while borrowings have an average tenor of 2 years. The mismatch is expected to continue considering an increase in the proportion of school loans with reduction in the student loan portfolio. However, Varthana maintains adequate liquidity (three months of repayments and operating expenses) through on-balance-sheet liquidity and undrawn bank lines. As of March 31, 2026, the company had cash, equivalents, and liquid investments of Rs 2.5 billion compared with Rs 2.8 billion as of September 30, 2025.

Rating sensitivities

Upward factors

- Significant increase in its scale of operations while improving profitability and overall gearing level below 3.5x
- Sustained improvement in asset quality

Downward factors

- Continuous deterioration in capitalisation profile
- Deterioration in liquidity profile
- Significant deterioration in asset quality

Environmental, social and governance (ESG) considerations

CareEdge Global observes that Varthana primarily lends to businesses operating in semi-urban areas and promotes sustainable practices among its borrowers. These include 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.

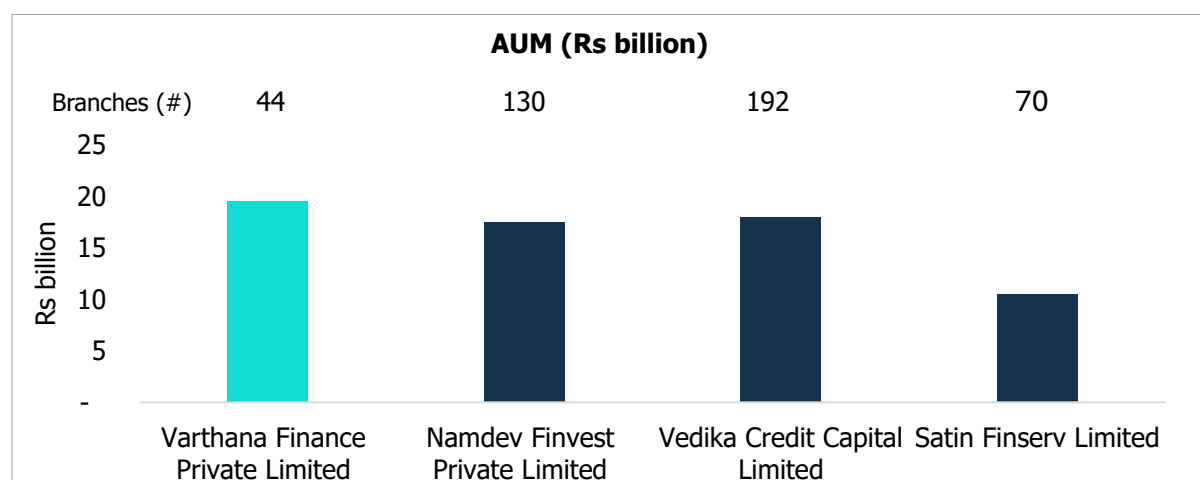
From a social perspective, the company addresses key social priorities by providing funding to institutions engaged in quality education for children. This approach supports affordable schools across India by enabling them to expand capacity and improve educational opportunities for students from low-income households. On the governance front, the company demonstrates reasonable governance practices, with a mix of independent and investor directors on the board, coupled with regular board meetings and quarterly audit practices.

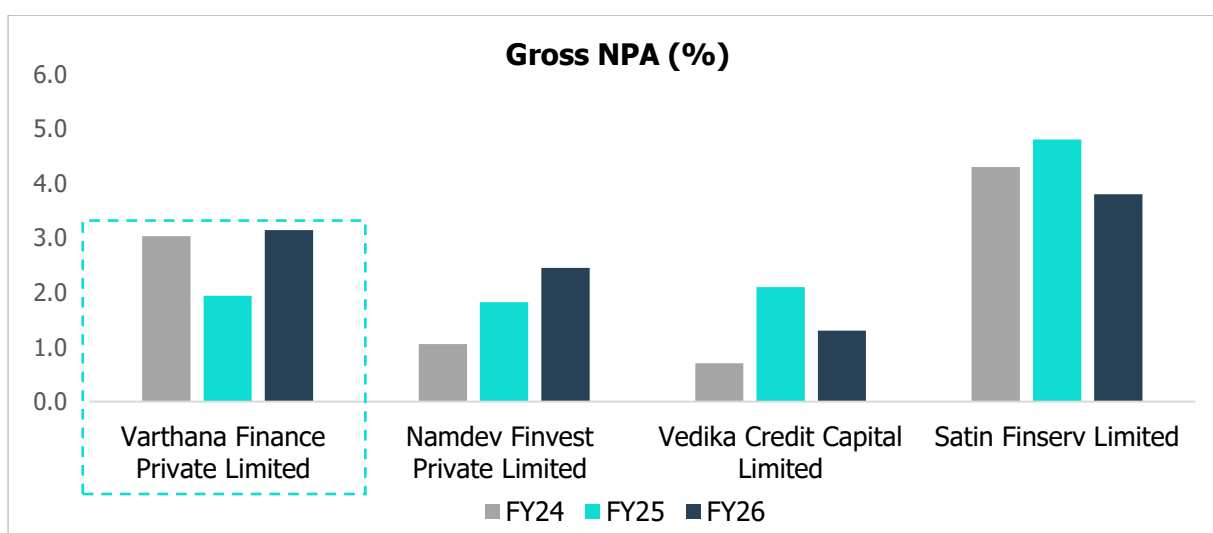
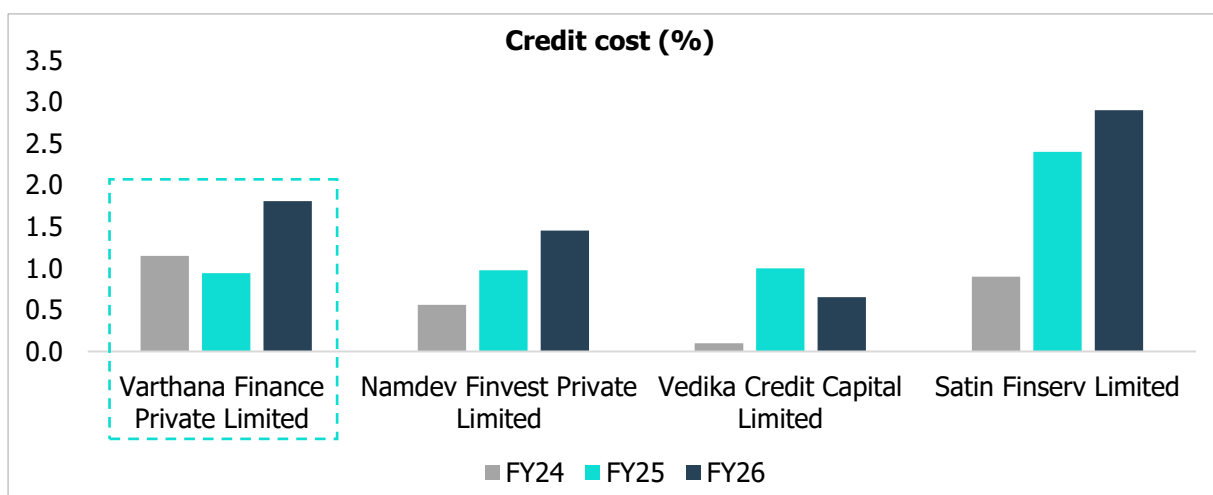
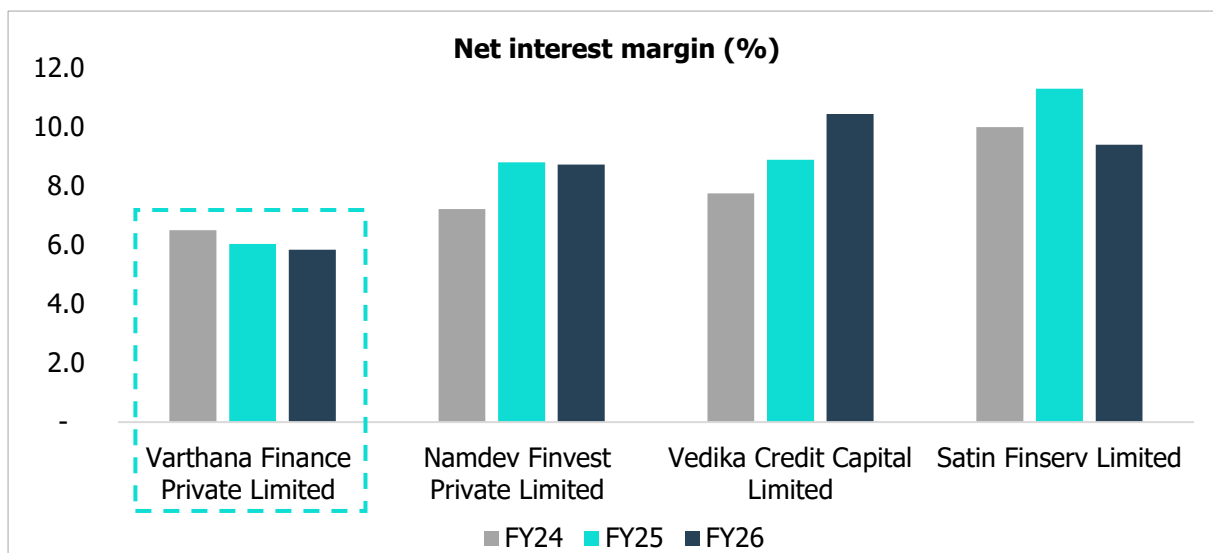
About the company

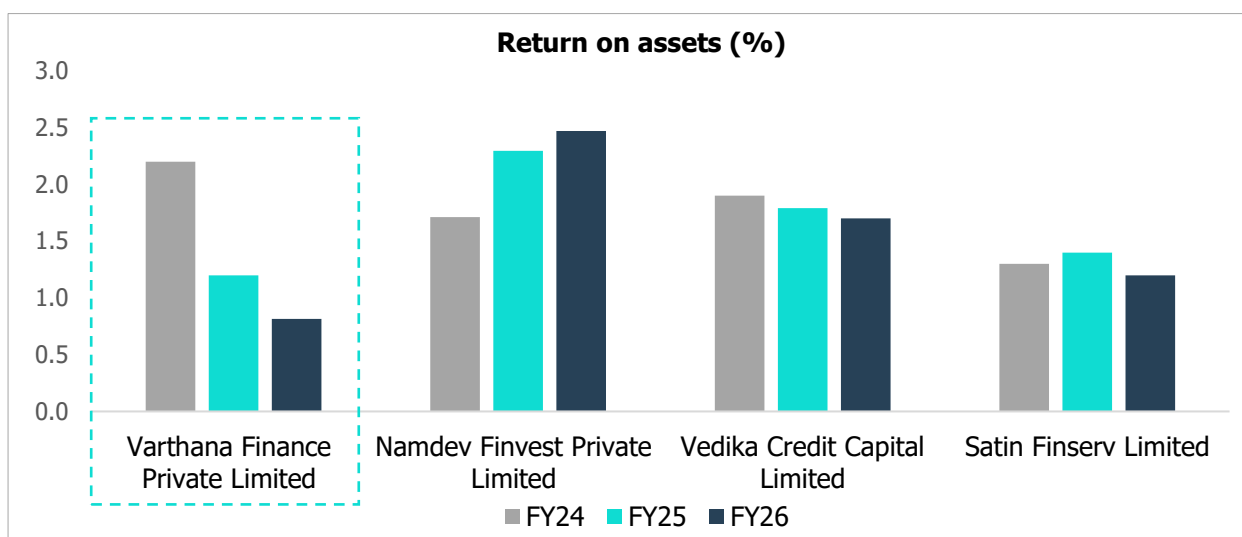
Varthana is a non-deposit accepting NBFIs headquartered in Bengaluru. It was founded by Steven Edwin Hardgrave and Brajesh Mishra, who have extensive experience in education financing. Varthana started operations after its promoters acquired an erstwhile NBFIs, Thirumeni Finance Private Limited, in May 2012. School financing operations under the brand Varthana were started in January 2013. It finances private schools for infrastructure improvement and capacity expansion. These loans have an average ticket size of Rs 3 million with an average tenure of 7 years. Further, the company launched student loan financing in June 2018, which is planned to be discontinued. The average ticket size of student loans was Rs 0.1 million with a tenure of 1.5 years.

As of March 31, 2026, Varthana operates across 15 states with AUM of ~Rs 19.5 billion. AUM growth has been aided by the expansion of the school financing portfolio, which accounts for 93% of the total AUM, while student loans contribute the remaining. The company has been raising equity capital from private equity investors and major shareholders, apart from the founders. The company has raised Rs 4.5 billion of equity from the founders and various institutional investors. Varthana's institutional investors are Chryscapital, Lightrock, Kaizen Private Equity, Omidyar Network, Elevar Equity, Blue Haven, and Potencia Ventures.

Comparison with other NBFIs







Key summary financial metrics

Particulars	Unit	March 31, 2024	March 31, 2025	March 31, 2026
AUM	Rs Bn	12.81	18.97	19.52
Net interest margin	%	6.4	5.8	6.0
Cost to income	%	49.9	68.9	63.7
GNPA	%	2.8	1.9	3.1
Return on assets	%	2.2	1.2	0.8
CAR	%	41.1	28.5	28.3

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

	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Issue Size	Rating
External Commercial Borrowing	INIFD0905023	November 24, 2024	450 basis points plus Term SOFR ¹	November 27, 2028	USD 15 million	CareEdge B-/Credit Watch with Developing Implications
External Commercial Borrowing	INIFD0905031	January 21, 2025	450 basis points plus Term SOFR	December 27, 2027	USD 12 million	CareEdge B-/Credit Watch with Developing Implications
External Commercial Borrowing	INIFD0905049	June 18, 2025	495 basis points plus Term SOFR	June 18, 2027	USD 8 million	CareEdge B-/Credit Watch with Developing Implications
External Commercial Borrowing	INIFD0905056	December 25, 2025	6.00%	December 13, 2030	EUR 5 million	CareEdge B-/Credit Watch with Developing Implications
External Commercial Borrowing (proposed)	-	-	-	-	USD 2 million	CareEdge B-/Credit Watch with Developing Implications
External Commercial Borrowing (proposed)	-	-	-	-	USD 36 million	Withdrawn

Rating history

Instrument	Type	Rating	Date
External Commercial Borrowing Bonds	Long Term Foreign Currency (Solicited)	CareEdge B-/Credit Watch with Developing Implications	July 28, 2026
External Commercial Borrowing Bonds	Long Term Foreign Currency (Solicited)	CareEdge B-/Stable (Reaffirmed)	January 09, 2026
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

¹Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by treasury securities

Criteria applied

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

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