

RATING RATIONALE

15 Jan 2024

Avanse Financial Services Limited

Brickwork Ratings upgrades the ratings of the Non Convertible Debentures aggregating to Rs. 115.00 crs. of Avanse Financial Services Limited and revises the outlook from positive to stable.

Particulars:

Instruments**	Amount (Rs. in Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Oct. 27, 2022)	Present
Secured NCDs	50.00	40.00 [^]	Long Term	BWR A+/Positive (Reaffirmed with revision in outlook from Stable to Positive)	BWR AA-/Stable (Upgrade with revision in outlook from Positive to Stable)
Unsecured Subordinated Debt	75.00	75.00			
Total	125.00	115.00	INR One Hundred and Fifteen Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings.

**Complete NCD details are provided in Annexure-I

[^]NCD of Rs. 10 Crs redeemed. Documents for withdrawal awaited.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has upgraded the ratings of Non-Convertible Debentures amounting to Rs. 115.00 Crores of Avanse Financial Services Ltd (AFSL' or the Company) and revised the outlook from Positive to Stable, as tabulated above. The NCDs amounting to Rs. 10.00 Crores were redeemed in full in FY-23. Confirmation of redemption has been received from the Debenture Trustees on record. Withdrawal of rating for this is under process.

The upgrade of ratings factors in the improved asset quality metrics, adequate resource profile, and consistent growth in AUM, resulting in enhanced profitability. BWR has also considered the industry trends while arriving at the rating. The rating further draws strength from the capital infusion from its existing and new investors. However, these strengths are partially constrained by the Company's limited ability to access cheaper sources of debt funds, as it is a non-deposit-taking NBFC. Also, since the promoters are investment companies, and the performance of AFSL has been quite good, raising capital should not pose a problem for the entity.

The revision in outlook from Positive to Stable indicates the steadiness in the business's growth. BWR expects ongoing consistency in the growth of profitability metrics, backed by the infusion of capital from promoters to continue during the current year.



BWR's rating evaluates the cushion over the company's minimum statutory requirements of capital ratios, such as CRAR and Tier-I capital. The company's CRAR, as of March 31, 2024, stands at 24.86%, surpassing the statutory requirement of 15%, indicating the company's potential to survive any stressed scenario. The company's Tier-I capital also stands comfortably at 24.35%, exceeding the statutory requirement of 15%, further proving the company's ability to withstand operational and abnormal losses.

The company reported a significant improvement in asset quality in FY-23 and H1FY24, complementing the profitability metrics of the company. The fact that the GNPA levels have remained below 1% despite the growth in the AUM vindicates the strength of the risk assessment by the company.

The company's overall gearing ratio moderated from 3.15x as of March 31, 2023, to 3.87x as of September 30, 2023. BWR anticipates an improvement in the capitalization of the company in the long and medium term, as the company has plans to raise capital to support the growth in operations. BWR also notes the establishment of a wholly-owned subsidiary named 'Avanse Global Finance IFSC Private Limited' in GIFT-City, Gujarat, to cater to the needs of students seeking EL in foreign currency denominations, especially in USD.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The NCDs are already raised, and no fresh NCD is being rated by BWR. There are no changes in the terms and conditions of the NCDs.

KEY RATING DRIVERS

Credit Strengths:-

Experienced management backed by strong Parentage

Olive Vine Investment Limited, a Warburg Pincus group entity, acquired a substantial stake of ~80% in the company in FY20. The remaining 20% stake is held by International Finance Corporation (IFC). Warburg Pincus is known for its highly diversified portfolio and has over \$ ~8 Billion in assets under management across 260 countries. The company has brought in Kedaara Capital as an investor in Jan. 2023, and the three promoters, being investment companies with international experience, lend great strength to the company's management. The company has a strong management team, led by Mr. Amit Gainda as the Managing Director & CEO, who has over two decades of experience in the banking and financial services industry. AFSL has a strong six-member board of directors, who are professionals from different fields such as banking, finance, accounting and business administration. Board members include Mr Narendra Ostawal-Managing Director of Warburg Pincus India Private Limited and Ms Vijayalakshmi Iyer- Ex Chairperson and CMD of Bank of India. Moreover, the company has a robust Corporate Governance Framework, as evidenced by the establishment of multiple board committees overseeing various aspects of business.

Comfortable Capitalisation with moderate Gearing levels, supported by additional equity infusion by existing shareholders

Capitalisation metrics of the bank continued to remain healthy as reflected in Tier I, Tier II and overall CAR at 24.35 %, 0.51% and 24.86 % respectively as on March 31, 2023 against 21.61%, 1.35% and 22.96% as on March 31, 2022 which gives the company sufficient headroom to grow business. During FY-23 existing



investors Warburg Pincus and IFC infused Rs. 390 crs. via CCPS. Kedaara Capital Growth Fund III LLP (“Kedaara”) entered in the month of January 2023 by way of preferential allotment of Rs. 600 crs. on a private placement basis. With a total equity infusion of almost Rs. 1000 crores and the retention of surplus, the gearing ratio stood at 3.15x as of March 31, 2023.

Consistent growth in AUM aided by high disbursements

The AUM grew by 79% to ~₹8,646 crore in FY-23 over 4,835.61 crore in FY22. It further increased to Rs.11,492 cr. in September 2023. The disbursements also spiked by 110% in FY-23 at Rs. 6,148.6 crore when compared to Rs. 2,927 crore in the previous FY22.

Credit Risks:-

Undiversified product portfolio

AFSL focus is only on the Educational Loans, and comprises loans to students (~79%) and Educational Institutions loans (~16%), and Digital loans (~5%) as of September 30, 2023. The loans to students are mainly for pursuing technical courses abroad, and are largely unsecured in nature. USA, UK and Canada are the countries where the bulk of the loans are disbursed.

To mitigate these risks of limited geographical area of operation and product concentration, the company has developed a strong risk management mechanism which has withstood the test of time. The relatively higher employability of the courses funded also reduces the risks to an extent.

Susceptibility to competition

The company faces competition from the scheduled commercial banks and other NBFCs, especially in the interest rates. However, banks prefer to offer educational loans with security and willing to lend on an unsecured basis helps AFSL. To compete with the other NBFCs, AFSL focuses on overseas loans, and ensures low TAT. AFSL also liaises with various reputed overseas education consultants for securing leads, and this strategy has proved successful for AFSL.

High Cost of Funds

As a non-deposit taking NBFC (NBFC-ND), the company lacks access to low-cost CASA as a source of funds. The average cost of borrowing for the company stands ~ 9.25%, thereby affecting the profit margins.

Geographic Concentration Risk

Nearly 56% of the loans are for students going to the USA. The UK and Canada make up the other two geographical centres. While diplomatic relations with the USA and UK are satisfactory, the relations with Canada are presently under stress. However, so far there has been minimal impact on the credit portfolio of AFSL.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has evaluated AFSL’s risk profile on a standalone basis. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).



RATING SENSITIVITIES

Positive:

- Improved scale of operations leading to enhanced profit metrics. The company is expected to achieve the AUM level of at least Rs. 13000 crores in FY24.
- Comfortable capitalization metrics by planned capital infusion.
- Adequate liquidity to cushion against stressed scenario

Negative:

- GNPA level in excess of 3%.

LIQUIDITY INDICATORS - Adequate

- The LCR as at September 30, 2023 stood at 641%. against minimum regulatory requirement of 70%. It is noted that the revised statutory requirements as of December 01, 2023, increased to 85%.
- As of September 30, 2023, the company holds cash and cash equivalents of Rs. 1335 crores and undrawn sanctions amounting to Rs. 1809 crores, totaling Rs. 3144 crores. In contrast, the company has total borrowings of Rs. 10098.44 crores with an average cost of borrowings at ~9.25%. The expected repayment obligations till FY-24 are Rs. 1260 crs. This indicates the availability of adequate liquidity to meet both long-term and short-term liabilities.
- The company had a negative surplus for short-term individual maturity buckets in the ALM profile for November 2023. However, on a cumulative basis, there is no mismatch.

COMPANY PROFILE

Avanse Financial Services Limited (AFSL) was initially formed in August 1992 and was known as Abhivruddhi Holdings Private Limited (AHPL). Dewan Housing Finance Corporation Limited (DHFL) (80%) and International Finance Corporation (IFC) (20%) bought a 100% stake in AHPL in July 2012 and changed the company's name to Avanse Financial Services Private Limited (AFSPL) and commenced education loan business from January 2013. In March 2019, as part of the strategic decision, then existing promoters divested their entire stake in the company to M/s. Olive Vine Investment Limited, an affiliate of the Warburg Pincus. The present shareholders are Olive Vine Investment Limited (66.97%), IFC (13.04%), Kedaara Capital Growth Fund III LLP (15.86%) and Kedaara Pichola Holding Limited (4.13%) as on September 2023. AFSL is a Systemically Important Non-Deposit taking Non-Banking Financial Company registered.

with the RBI and is engaged in the business of providing education loans for the purpose of higher studies, both in India and abroad, and also provides education infrastructure loans. The company is focused on financing in the education sector with the rundown of its legacy portfolio of MSME and Financial Institution segments. The company has established its presence in financing overseas students and is also diversifying into other segments of education financing, including loan to educational institutions and students pursuing courses through edutech platforms.

KEY FINANCIAL INDICATORS

Particulars	Units	FY-22 (Audited)	FY-23 (Audited)	H1FY24 (Unaudited)
AUM	Rs in Crs.	4836	8646	11,492
Total Income	Rs in Crs.	508	990	790
PAT	Rs in Crs.	63	158	161
Tangible Networth	Rs in Crs.	1001	2138.76	2477
Gearing	Times	3.58x	3.15x	3.87x
CRAR	%	22.96	24.86	21.46
GNPA	%	1.29	0.56	0.43
NNPA	%	0.53	0.17	0.11

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY

No outstanding non-cooperation rating with other Credit Rating Agencies.

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]

Instrument	Current Rating (2023)			Rating History for the past 3 years					
	Type	Amt.	Rating	2022 (Oct. 27, 2022)		2021 (Sep. 24, 2021)		2020 (Sep. 25, 2020)	
				Amt.	Rating	Amt.	Rating	Amt.	Rating
Secured NCD	Long Term	40.00	BWR AA-/Stable (Upgrade with revision in outlook from Positive to Stable)	55.00	BWR A+/Positive (Reaffirmed with revision in outlook from Stable to Positive)	525.00	BWR A+ (Stable) (Reaffirmed)	525.00	BWR A+/ Stable
Unsecured Subordinated NCD		75.00		75.00		75.00		75.00	
Proposed NCD		-		470.00	Withdrawn on account of non utilization	-		-	
Total		115.00	INR One Hundred and Fifteen Crores Only						



COMPLEXITY LEVELS OF THE INSTRUMENTS

Secured NCDs - **Simple**

Unsecured Subordinated NCDs - **Complex**

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks and Financial Ratios](#)

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Avanse Financial Services Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE II

INSTRUMENT (NCD) DETAILS:

Series	Issue Date	Amount o/s (Nov. 23)	Tenor	Maturity Date	ISIN
NCD 001	31-Jul-15	25.00	10 years	31-Jul-25	INE087P07022
NCD 003	7-Aug-15	15.00	10 years	7-Aug-25	INE087P07048
Sub Debt Series 1	16-Mar-16	25.00	8 years	16-Mar-24	INE087P08012
Sub Debt Series 2	30-June-17	25.00	10 years	30-Jun-27	INE087P08020
Sub Debt series 3	27-Dec-17	25.00	10 years	27-Dec-27	INE087P08038
Total		115.00			



ANNEXURE III

List of entities consolidated : NA

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