

Rating Rationale

Avanse Financial Services Limited

19 July 2019

Brickwork Ratings revises the rating for the various existing debt instruments of Avanse Financial Services Limited (“AFSL” or “Company”) to BWR A+ and Credit Watch with Developing Implications.

Particulars

Instruments#	Previous Rated Amount (Rs in Crs)	Present Rated Amount (Rs in Crs)	Tenure	Rating*	
				Previous (March 2019)	Present
Proposed unsecured subordinated NCDs	50.00	50.00	Long Term	Provisional BWR AA- (SO) [Pronounced as BWR Double A Minus (Structured Obligation)] Credit Watch with Negative Implications	BWR A+ [Pronounced as BWR A Plus Credit Watch with Developing Implications]
Secured NCDs	525.00	525.00	Long Term	BWR AA- (SO) [Pronounced as BWR Double A Minus (Structured Obligation)] Credit Watch with Negative Implications	BWR A+ [Pronounced as BWR A Plus Credit Watch with Developing Implications]
Unsecured Subordinated NCDs	75.00	75.00			
Total	650.00	650.00	INR Six Hundred Fifty Crores Only		

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

#ISIN-wise details of NCDs are available in Annexure I

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Earlier the Structure Obligation (SO) ratings were based on Credit Enhancement in the form of Letter of Comfort (LOC) from Dewan Housing Finance Corporation Limited (DHFL) in favour of investors of AFSL. However, with ongoing stake sale process to Olive Vine Investment Limited, an affiliate of the Warbug Pincus Group, we have taken a standalone view of AFSL’s ratings without considering any credit enhancement from the LOC.

BWR has analysed the credit risk profile of AFSL and factored the likely change in ownership to Warbug Pincus group. The rating also factors proposed upfront equity infusion of ~Rs 300 Crs by Warbug Pincus Group into the company, once the transaction is formally complete with all the necessary approval in place. The ratings continues to factor AFSL’s experienced management team, comfortable asset quality



and adequate capitalisation. The rating remains constrained due limited seasoning of the portfolio, small scale of operations, inherent risks in the target segment, increased cost of funds and tightened liquidity.

The rating continues to be on credit watch since the aforementioned stake sale transaction is subject to necessary approvals. BWR will continue to monitor the progress of the transaction and the rating is likely to be revised downward if the transaction is not completed.

Post completion of the transaction, the ability of the company to grow while maintaining asset quality, sustaining profitability and ensuring a prudent capital structure will be key rating sensitivities.

Key Rating Drivers

Credit Strengths

Experienced Management: AFSL has a well-experienced management team. Mr. Amit Gainda (CEO) has over two decades of experience in banking and financial services industry.

Comfortable Asset Quality: Adequate credit underwriting processes have helped the company in maintaining a comfortable asset quality. Gross NPA and Net NPA stood at 0.17% and 0.13% respectively as on March 31, 2019.

Adequate Capitalisation: Tangible net worth and overall Capital Adequacy ratio was at Rs 574 Crs and 21.97% respectively as on March 31, 2019 from Rs 484.01 Crs and 25.71% as of March 31, 2018. Gearing was 4 times as of March 31, 2019.

Credit Challenges

Limited Seasoning of Loan Portfolio and small scale of operations: The company started operations in 2013. However, majority of loan portfolio has been created in last two years. AUM has increased to Rs 2852 Crs as on March 31, 2019 against Rs 2187 Crs as of March 31, 2018. Further, more than 80% of the total portfolio is for a tenor of ~ 7 years. Overall asset quality is yet to be tested through different business cycles. As of March 31, 2019, 57% of loan portfolio constituted of Education Loans, 27% constituted of Education Infrastructure Lending, 8% constituted Lending to Financial Institutions, 8% was SME loans.

Inherent risks in the target borrower segment: Unlike traditional loan segments, education loan borrowers' credit profile is based on the assessment of the students academic performance, university and course opted along with an assessment of the future earning potential of the students and assessment of co-borrower income. While AFSL has established sound credit appraisal systems, the ability to accurately assess the borrower profile is yet to be fully tested. The asset quality profile continues to be robust.

Increased Cost of Funds and Tightened Liquidity: The recent tightening in liquidity could result in slowdown in disbursements and growth in loan portfolio. The interest costs for NBFCs have increased which might lower the NIMs going forward.

Analytical Approach

For arriving at its ratings, BWR has evaluated the risk profile of AFSL on a standalone basis and factored the change in ownership to Warbug Pincus Group which is subject to necessary approvals. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Liquidity Position: The company has ~Rs 178 Crs of FD, cash and bank balance and ~Rs 164 Crs of unutilised credit lines (term loans) as of June 30, 2019. Against which company has debt obligation outflow of Rs.29.46 Crs in July 2019, Rs. 8.47 Crs in Aug 2019 and Rs. 83.51 Crs in Sep 2019. Company has been regular in meeting its debt obligations. The company does not have any outstanding commercial paper as on June 30, 2019.

About the Company

Avanse Financial Services Limited (AFSL) was initially formed in August 1992 and was known as Abhivruddhi Holdings Private Limited (AHPL). DHFL and the other promoter group entities bought 100% stake in AHPL in July 2012 and changed the company's name to Avanse Financial Services Private Limited (AFSPL). AFSL is a Systemically Important Non-Deposit taking Non-Banking Financial Company registered with 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. At present, the company has 11 branches and 5 sales representative offices.

Financial Performance

Total income (net of interest expenses) increased to Rs 164.91 Crs in FY19 against Rs 79.43 Crs in FY18, an increase of ~108% over previous year. Net profit increased to Rs. 27.27 Crs in FY19 against Rs 11.86 Crs in FY18, an increase of ~130%. The increase in income and profit was due to increase in portfolio to Rs. 2852 Crs as on March 31, 2019 against Rs. 2187 Crs as on March 31, 2018. Tangible net worth has improved to Rs. 574 Crs as on March 31, 2019 against Rs 485 Crs as on March 31, 2018. Overall Capital adequacy ratio decline to 21.97% as on March 31, 2019 against 25.71% as on March 31, 2018 due to significant increase in risk weighted assets (loan portfolio). Gross NPA and Net NPA were 0.17% and 0.13% as of March 31, 2019.

Key Financials:

Key Financial Indicators	Unit	FY17 Audited	FY18 Audited	FY19 Audited
Total Income (net of interest expenses)	Rs in Crs	32	79	165
Net Profit	Rs in Crs	6	12	27
Tangible Net Worth	Rs in Crs	140	485	574
Total Debt / Tangible Net worth	Times	6	4	4
Total CRAR	%	17	26	22
Gross NPA	%	0.29	0.09	0.17
Net NPA	%	0.25	0.07	0.13
AUM	Rs in Crs	982	2187	2852

Rating History :

Sn	Facility/Instruments	Amt Rs Crs	Current Rating (March 2019)	Rating History							
				FY19				FY18	FY17	FY16	
				9.3.19	6.2.19	21.1.19	17.12.18	3.07.17 6.12.17 27.12.17	29.7.16	15.10.15, 31.03.16	
1	Proposed Subordinated NCDs	50	BWR A+ (Pronounced as BWR A Plus) Credit Watch with Developing Implications	Provisional BWR AA- (SO) (Pronounced as BWR Double A Minus) (Structured Obligation) Credit Watch with Negative Implications	Provisional BWR AA (SO) (Pronounced as BWR Double A) (Structured Obligation) Credit Watch with Negative Implications	Provisional BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Negative	NA	NA	NA	NA	
2	Secured NCDs	525	BWR A+ (Pronounced as BWR A Plus) Credit Watch with Developing Implications	BWR AA- (SO) (Pronounced as BWR Double A Minus) (Structured Obligation) Credit Watch with Negative Implications	BWR AA (SO) (Pronounced as BWR Double A) (Structured Obligation) Credit Watch with Negative Implications	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Negative	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Stable	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Stable	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Stable	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Stable	
3	Subordinated NCDs	75	BWR A+ (Pronounced as BWR A Plus) Credit Watch with Developing Implications	BWR AA- (SO) (Pronounced as BWR Double A Minus) (Structured Obligation) Credit Watch with Negative Implications	BWR AA (SO) (Pronounced as BWR Double A) (Structured Obligation) Credit Watch with Negative Implications	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Negative	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Stable	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Stable	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Stable	BWR AA+ (SO) (Pronounced as BWR Double A Plus) (Structured Obligation) Outlook: Stable	
Total		650	Rupees Six Hundred Fifty Crores Only/-								

Status of non-cooperation with previous CRA : NA

Any Other Comments: NA

Hyperlink/Reference to applicable Criteria

[● General Criteria](#)

[● Banks & Financial Institutions](#)

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Annexure I
ISIN details of NCDs

Instruments	ISIN	Issue date	Maturity	Coupon Rate p.a.	Coupon Frequency	Amount Raised (Rs. Crs)	Outstanding as on 30.06.19 (Rs. Crs)
Secured NCDs	INEo87P07022	31/Jul/15	31/Jul/25	10.10%	Annually	0.50	0.50
Secured NCDs	INEo87P07022	31/Jul/15	31/Jul/25	10.10%	Annually	15.00	15.00
Secured NCDs	INEo87P07022	31/Jul/15	31/Jul/25	10.10%	Annually	9.50	9.50
Secured NCDs	INEo87P07030	07/Aug/15	08/Aug/22	10.05%	Annually	5.00	5.00
Secured NCDs	INEo87P07030	07/Aug/15	08/Aug/22	10.05%	Annually	5.00	5.00
Secured NCDs	INEo87P07048	07/Aug/15	07/Aug/25	10.10%	Annually	7.00	7.00
Secured NCDs	INEo87P07048	07/Aug/15	07/Aug/25	10.10%	Annually	8.00	8.00
Secured NCDs	INEo87P07055	26/Oct/15	26/Oct/20	9.55%	Annually	10.00	10.00
Secured NCDs	INEo87P07063	26/Feb/16	26/Feb/23	9.65%	Annually	10.00	10.00
Secured NCDs	INEo87P07089	03/Nov/17	02/Nov/20	8.65%	Annually	25.00	25.00
Secured NCDs	INEo87P07097	29/Jun/18	27/Sep/19	9.35%	Annually	50.00	50.00
Subordinated NCDs	INEo87P08012	16/Mar/16	16/Mar/24	10.50%	Annually	19.00	19.00
Subordinated NCDs	INEo87P08012	16/Mar/16	16/Mar/24	10.50%	Annually	6.00	6.00
Subordinated NCDs	INEo87P08020	30/Jun/17	30/Jun/27	9.50%	Annually	25.00	25.00
Subordinated NCDs	INEo87P08038	27/Dec/17	27/Dec/27	9.35%	Annually	25.00	25.00
Total						220.00	220.00



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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