

## Rating Rationale

### Avanse Financial Services Limited

21 Jan 2019

Brickwork Ratings assigns the ratings of Provisional BWR AA+(SO) with negative outlook for the proposed unsecured subordinated NCDs of Rs 50 Crs and revises the outlook to negative while reaffirming the ratings for the various existing debt instruments of Avanse Financial Services Limited (“AFSL” or “Company”) at BWR AA+(SO)

#### Particulars

Instruments#	Amount (Rs in Crs)			Tenure	Rating*	
	Previous	Present Outstanding	Present		Previous	Present
<b>Fund Based</b>						
Proposed unsecured subordinated NCDs	0.00	0.00	50.00	Long Term	--	Provisional BWR AA+(SO) [Pronounced as BWR Double A Plus (Structured Obligation)] Outlook: Negative Assigned
Secured NCDs	525.00	145.00	525.00	Long Term	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: Revised to Negative
Unsecured Subordinated NCDs	75.00	75.00	75.00			
<b>Total</b>	<b>600.00</b>	<b>220.00</b>	<b>650.00</b>	<b>INR Six Hundred Fifty Crores Only</b>		

\* Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#ISIN-wise details of NCDs are available in Annexure

Note - The final rating will be contingent upon receipt of the executed transaction documents confirming to the information already received by BWR.

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results upto FY18, unaudited financial results of H1FY19, publicly available information and information/clarifications provided by the company's management.

The Structured Obligation (SO) rating factors the credit enhancement in the form of Letter of Comfort issued by Dewan Housing Finance Corporation Ltd (DHFL) (Rated BWR AAA Stable) in favour of the investors of the NCDs issued by AFSL.

The outlook has been revised to “Negative” as BWR believes that WGC Group’s ability to support AFSL has reduced given the tightened liquidity position of DHFL in light of the ongoing stressed economic environment for NBFCs and HFCs in particular. BWR will continue to monitor DHFL’s ability to provide support to its group companies in times of stress, while managing its own liquidity.

The rating continues to reflect the company’s strategic importance to the WGC Group (collectively referring to DHFL, Wadhawan Global Capital Private Ltd and its promoters), expectation of support from the WGC group for servicing of its financial obligations, comfortable asset quality, diversified resource profile and adequate capitalisation. The rating, however, remains constrained by the limited seasoning of the loan portfolio, increasing interest costs and tightened liquidity position for NBFCs.

Going forward, the support from the WGC Group, the ability of the company to maintain asset quality, sustain profitability and ensure a prudent capital structure will be the key rating sensitivities.

## Key Rating Drivers

### Credit Strengths

**Experienced Management and Strong Parentage:** AFSL has a well experienced board and senior management team. Mr. Amit Gaiinda (CEO) has over two decades of experience in banking and financial services industry. Mr. Kapil Wadhawan, Chairman & Managing Director of DHFL, is also the Non-Executive Chairman of AFSL. The company is strategically important to the WGC Group (DHFL holds 30.63%, Wadhawan Global Capital Private Limited holds 49.04% stake in AFSL as on Sep 30, 2018). AFSL benefits from the group’s strong management team, operational and financial support. The group management centre of the WGC group is actively involved in AFSL’s strategic decision making.

**Comfortable Asset Quality:** Adequate credit underwriting processes have helped the company in maintaining a comfortable asset quality. Gross NPA and Net NPA stood at 0.11% and 0.08% respectively as on Sep 30, 2018.

**Adequate Capitalisation:** Tangible net worth and overall Capital Adequacy ratio has improved from Rs 139.87 Crs and 16.50% as of March 31, 2017 to Rs 484.01 Crs and 25.71% as of March 31, 2018. During FY18, existing shareholders [viz DHFL, WGC and International Finance Corporation Ltd (IFC)] have infused equity of ~Rs 334 Crs in the company by way of rights issue with premium. Total Debt/ TNW has improved from 6.40 times as of March 31, 2017 to 3.82 times as of March 31, 2018. Further, as of Sep 30, 2018 the Total Debt/ TNW stood at 4.55 times.

## Credit Challenges

**Limited Seasoning of Loan Portfolio:** The company started operations in 2013. However, majority of loan portfolio has been created in last two years. AUM has increased from Rs 982 Crs as of March 31, 2017 to Rs 3134 Crs as of Sep 30, 2018. Further, more than 80% of the total portfolio is for a tenor of ~ 10 years. Overall asset quality is yet to be tested through different business cycles. During FY18, the company has entered into 2 new business segments viz. MSME loans and Commercial Finance. The track record in these assets segments remains limited. As of Sep 30, 2018, 54% of loan portfolio constituted of Education Loans, 26% constituted of Education Infrastructure Lending, 11% constituted Lending to Financial Institutions, 9% was SME loans and rest being other loans.

**Increased Interest Costs 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.

**Liquidity Position:** As per the ALM position as of Nov 30, 2018, there was a negative cumulative mismatch in the 1 to 3 year bucket. However the surplus generated up to 1 year is expected to remain in the business & the company is not likely to face liquidity issues. The company has debentures and Inter Corporate Deposits (ICDs) aggregating to ~Rs 200 Crs maturing in Jan 2019. However, the company has ~Rs 135 Crs of cash and bank balance and ~Rs 164 Crs of unutilised credit lines (term loans) as of Dec 31, 2018.

## Analytical Approach

For arriving at its ratings, BWR has evaluated the risk profile of AFSL on a standalone basis and factored the group support in terms of operational, financial and management linkages with WGC group. AFSL does not have any Subsidiary/Joint Ventures/Associate Company as of March 31, 2018. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

## Rating Outlook: Negative

BWR believes WGC Group's ability to support AFSL has reduced given the tightened liquidity position of DHFL in the light of ongoing stressed economic environment for NBFCs and HFCs in particular. The 'Negative' outlook indicates a likelihood of rating change over the medium term. Deterioration in asset quality or profitability of AFSL or a revision in outlook or ratings of DHFL or a reduced expectation of support from DHFL would result in revision of Ratings of AFSL.

## 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. During FY18,

company has entered into 2 new business segments viz. MSME loans and Commercial Finance. At present the company has 11 branches and 5 sales representative offices. It accesses the educational markets of the country through 184 DHFL Centres. The Company is also registered with Insurance Regulatory and Development Authority of India (IRDAI) as Corporate Agent (Composite) and acts as a Corporate Agent of DHFL Pramerica Life Insurance Ltd and DHFL General Insurance Ltd.

### Financial Performance

Total income (net of interest expenses) increased from Rs 47.13 Crs in FY17 to Rs 95.52 Crs in FY18, an increase of ~102% over previous year. Net profit increased from Rs 5.60 Crs in FY17 to Rs 10.25 Crs in FY18, an increase of ~83%. The increase in income and profit was due to increase in portfolio from Rs 982 Crs as of March 31, 2017 to Rs 2187 Crs as of March 31, 2018. Tangible net worth and overall Capital Adequacy ratio has improved from Rs 139.87 Crs and 16.50% as of March 31, 2017 to Rs 484.01 Crs and 25.71% as of March 31, 2018. Gross NPA and Net NPA were 0.09% and 0.07% as of March 31, 2018. AFSL has reported total income (net of interest expenses) of Rs 85.74 Crs and net profit of Rs 16.42 Crs during H1FY19 (unaudited).

### Key Financials :

Key Financial Indicators	Unit	FY17 Audited	FY18 Audited
Total Income (net of interest expenses)	Rs in Crs	47.13	95.52
Net Profit	Rs in Crs	5.60	10.25
Tangible Net Worth	Rs in Crs	139.87	484.01
Total Debt / Tangible Net worth	Times	6.40	3.82
Total CRAR	%	16.50	25.71
Gross NPA	%	0.29	0.09
Net NPA	%	0.25	0.07
AUM	Rs in Crs	982.00	2187.00

### Rating History :

Sl. No.	Facility	Amt Rs Crs	Current Rating (Jan 2019)	Rating History				
				FY18	FY17	FY16	FY15	FY14
				3.07.17, 6.12.17 & 27.12.17, 17.12.18	29.07.16	15.10.15, 31.03.16	9.06.14 & 23.01.15	18.02.14
1	Proposed Subordinated NCDs	50.00	Provisional BWR AA+ (SO) (Outlook: Negative)	NA	NA	NA	NA	NA
2	Secured NCDs	525.00	BWR AA+ (SO) (Outlook: Negative)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	NA	NA
3	Subordinated NCDs	75.00	BWR AA+ (SO) (Outlook: Negative)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	NA	NA
	<b>Total</b>	<b>650.00</b>						
1	Term Loans	100.00	NA	NA	NA	NA	Rating Withdrawn	BWR AA (SO) (Stable)
	<b>Total</b>	<b>100.00</b>						

**Status of non-cooperation with previous CRA : NA**

**Any Other Comments: NA**

**Hyperlink/Reference to applicable Criteria**

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

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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 4.1.19 (Rs. Crs)
Secured NCDs	INE087P07022	31/Jul/15	31/Jul/25	10.10%	Annually	0.50	0.50
Secured NCDs	INE087P07022	31/Jul/15	31/Jul/25	10.10%	Annually	15.00	15.00
Secured NCDs	INE087P07022	31/Jul/15	31/Jul/25	10.10%	Annually	9.50	9.50
Secured NCDs	INE087P07030	07/Aug/15	08/Aug/22	10.05%	Annually	5.00	5.00
Secured NCDs	INE087P07030	07/Aug/15	08/Aug/22	10.05%	Annually	5.00	5.00
Secured NCDs	INE087P07048	07/Aug/15	07/Aug/25	10.10%	Annually	7.00	7.00
Secured NCDs	INE087P07048	07/Aug/15	07/Aug/25	10.10%	Annually	8.00	8.00
Secured NCDs	INE087P07055	26/Oct/15	26/Oct/20	9.55%	Annually	10.00	10.00
Secured NCDs	INE087P07063	26/Feb/16	26/Feb/23	9.65%	Annually	10.00	10.00
Secured NCDs	INE087P07089	03/Nov/17	02/Nov/20	8.65%	Annually	25.00	25.00
Secured NCDs	INE087P07097	29/Jun/18	27/Sep/19	9.35%	Annually	50.00	50.00
Subordinated NCDs	INE087P08012	16/Mar/16	16/Mar/24	10.50%	Annually	19.00	19.00
Subordinated NCDs	INE087P08012	16/Mar/16	16/Mar/24	10.50%	Annually	6.00	6.00
Subordinated NCDs	INE087P08020	30/Jun/17	30/Jun/27	9.50%	Annually	25.00	25.00
Subordinated NCDs	INE087P08038	27/Dec/17	27/Dec/27	9.35%	Annually	25.00	25.00
<b>Total</b>						<b>220.00</b>	<b>220.00</b>



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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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

### **About Brickwork Ratings**

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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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