



## RATING RATIONALE

24 September 2021

Avanse Financial Services Limited

**Brickwork Ratings Reaffirms the ratings for the Non-Convertible Debentures (NCDs) and Subordinated Debt of Rs. 600 Crs. of Avanse Financial Services Limited.**

### Particulars:

Instruments**	Amount Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Sep, 2020)	Present
NCDs	525.00	<b>525.00</b>	Long Term	BWR A+ (Stable)	<b>BWR A+ (Stable) (Reaffirmed)</b>
Subordinated Debt	75.00	<b>75.00</b>	Long Term	BWR A+ (Stable)	<b>BWR A+ (Stable) (Reaffirmed)</b>
Total	600.00	<b>600.00</b>	<b>Rs. Six Hundred Crs. Only</b>		

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

\*\* Details of NCDs/Subordinated Debt are provided in Annexure - II

### RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has reaffirmed ratings at 'BWR A+' / Stable for Non-Convertible Debentures (NCDs) and Subordinated Debt aggregating Rs.600 Crs of Avanse Financial Services Limited (AFSL or the company), as tabulated above. The ratings factor in the company's comfortable capitalisation and business risk profile, moderate asset quality, adequate resource profile and a strong promoter group and management team. The ratings are, however, constrained by the average earning profile and longer tenor of loans (scheduled tenor of over 8 years).

### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

### KEY RATING DRIVERS

#### Credit Strengths:-

- **Comfortable capitalisation:** AFSL is well-capitalised, with a total capital-to-risk weighted assets ratio (CRAR) of 32.74% as of 31 March 2021 and 29.29% as on 30 June 2021 as against 32.35% as on 31 March 2020, which is above the RBI's minimum stipulated requirement of 15%. Promoters had infused equity capital of Rs. 300 Crs in FY20, which has strengthened the company's capital position to cover for any asset-side risk and also augment growth. The networth increased to Rs. 942 Crs, and the gearing levels reduced to 2.46x as on 31 March 2021 from 2.79x as on 31 March 2020. The networth coverage of the net non-performing assets (NPAs) was comfortable, at around 74 times, as on 31 March 2021.
- **Comfortable business risk profile:** The company started operations in 2013 and witnessed healthy growth in the past 5 years. The assets under management (AUM) as on 31 March



2021 stood at Rs 3103 Crs and was at Rs. 3228 Crs as on 30 June 2021. AFSL's portfolio comprises education loans (EL) (57.85% of the AUM), followed by education institution loans (EIL) and social infrastructure Loans (SIL) (31.29%), Digital education loans (5.03%), and MSME and lending to financial institutions ( 5.80% ) as on 31 March 2021. The portfolio is granular, with the EL having an average ticket size of Rs.0.15 Crs, EIL and SIL having an average ticket size of Rs. 1 Cr, and digital learning loans having an average ticket size of Rs. 55,000. The company has been cautious with disbursements of Rs.976 Crs in FY21 vis-a-vis Rs. 1061 Crs in FY20. Disbursements have picked-up to Rs. 924 Crs in the first five months of FY22.

- **Sound credit underwriting** processes have helped the company in maintaining **comfortable asset quality**. AFSL's gross NPAs (GNPAs) and net NPAs (NNPAs) stood at 1.58% and 0.39%, respectively, as on 31 March 2021 (1.89% and 1.02%, respectively, as on 31 March 2020). The company's restructured book stood at 3.44% of the AUM as of end FY21. BWR believes that the overall stressed book (restructured + non-performing) may see a marginal increase during FY22. The company's ability to maintain stable asset quality in the near term will remain a key rating monitorable.
- **Adequate resource profile:** AFSL has an adequate resource profile, with the funding mix comprising term loans/cash credit (55% of borrowings), NCDs (37%), external commercial borrowings (5%) and subordinated debt (3%) as on 31 March 2021. The average cost of borrowings lowered to 9.31% as on 31 March 2021 as against 10.10% as on 31 March 2020. During FY21, the company raised debt funding of Rs.575 Crs. During FY22, the company has raised Rs. 245 Crs from banks and Rs. 235 Crs from NCDs till August 2021.
- **Strong promoter group and management team:** Olive Vine Investment Limited, a Warburg Pincus group entity, acquired an 80% stake in the company during FY20. The remaining 20% stake is held by International Finance Corporation (IFC). Promoters have supported the company through an equity infusion of Rs. 300 Crs in FY20. AFSL has an experienced board and management. The company has a strong management team, led by Mr. Amit Ganda (CEO), who has over two decades of experience in the banking and financial services industry. He is supported by an experienced management team with a long track record in the company.

#### **Credit Risks:-**

- **Average earning profile:** AFSL's earnings are mainly driven by student loans, which comprised ~58% of the company's total AUM as on 31 March 2021. The total income and profit after tax were Rs.439 Crs and Rs.38 Crs, respectively, for FY21. The net interest margin reduced to 4.70% in FY21 as against 5.59% in FY20 due to muted disbursements in FY21, with the company preferring to maintain additional liquidity. Provisioning costs were at 0.72% in FY21. However, any deterioration in asset quality due to the impact of COVID-19 on the economy could result in higher credit costs in FY22. The company's overall earning profile is expected to remain under pressure over the short to medium term due to pandemic-related issues.
- **Portfolio concentration:** Geographic concentration in metro/ tier 1 cities including Mumbai



and Delhi was to the extent of around 45% of the AUM as of 31 March 2021. The top four cities account for 72% of its AUM. More than 80% of the loans have a scheduled tenor in excess of 8 years and the portfolio is thus characterised by longer maturity loans.

### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

To arrive at its ratings, BWR has evaluated AHFL'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:** A substantial improvement in the market share and financial risk profile of the company, including income, profitability and asset quality

**Negative:** A sharp deterioration in the asset quality, including restructured assets, credit costs and business volumes

### **LIQUIDITY INDICATORS: ADEQUATE**

As on 30 June 2021, the company had adequate liquidity of Rs. 521 Crs, which comprised Rs. 290 Crs of liquid investments, Rs.207 Crs of fixed deposits (excluding lien marked) and Rs. 24 Crs of cash and bank balance. The company has debt obligations of Rs. 405 Crs between October 2021 to March 2022. The company also has Rs. 96 Crs of undrawn bank lines and scheduled collections of Rs.598.87 Crs during the above-mentioned period, which would add to its liquidity.

### **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). 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 at 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. 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. Olive Vine Investment Limited held an 80% equity stake, with the remaining 20% being held by IFC as of 30 June 2021. As on 30 June 2021, the company had 17 branches across 13 states with an employee count of over 600.

### KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY20	FY21
Result Type		Audited	Audited
Total Income	Rs.Crs.	434	439
Profit After Tax	Rs.Crs.	22	38
Networth	Rs.Crs.	900	942
Debt to Net Worth	Times	2.74x	2.79x
CRAR	%	32.35%	32.74%
GNPA	%	1.89%	1.58%
NNPA	%	1.02%	0.39%

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY : NA**

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

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Year T) (FY22)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable			
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crs)	Rating (Sep 2021)	Date(s)& Rating(S) assigned in year T-1 (FY21)	Date(s) & Rating(s) assigned in Year T-2 (FY20)	Dates(s) & Rating(s) assigned in Year T-3 (FY19)	Dates(s) & Rating(s) assigned in Year T-3 (FY18)
1	Secured NCDs	Long Term	525.00	BWR A+ (Stable) (Reaffirmed)	BWR A+ (Stable) (Reaffirmed) (25 Sep 2020)	BWR A+ (Stable) (Removed from Credit Watch with Developing Implication and assigned Stable Outlook ) (25 Sep 2019) BWR A+ (Credit Watch with Developing Implications) (Assigned Standalone Ratings) (19 July 2019)	BWR AA- (SO) Credit watch with Negative Implications) (Downgraded) (9 March 2019) BWR AA (SO) Credit watch with Negative Implications) (Downgraded) (6 Feb 2019) BWR AA+ (SO) (Outlook revised to Negative) (21 Jan 2019) BWR AA+ (SO) (Stable) (Reaffirmed) (17 Dec 2018)	BWR AA+ (SO) (Stable) (Reaffirmed) (27 Dec 2017) BWR AA+ (SO) (Stable) (Assigned & Reaffirmed) (6 Dec 2017) BWR AA+ (SO) (Stable) (Reaffirmed) (3 Jul 2017)
2	Subordinated Debt	Long Term	75.00	BWR A+ (Stable)	BWR A+ (Stable)	BWR A+ (Stable)	BWR AA- (SO) Credit	BWR AA+ (SO) (Stable)

				(Reaffirmed)	(Reaffirmed) (25 Sep 2020)	(Removed from Credit Watch with Developing Implication and assigned Stable Outlook ) (25 Sep 2019)  BWR A+ (Credit Watch with Developing Implications) (Assigned Standalone Ratings) (19 July 2019)	watch with Negative Implications) (Downgraded) (9 March 2019)  BWR AA (SO) Credit watch with Negative Implications) (Downgraded) (6 Feb 2019)  BWR AA+ (SO) (Outlook revised to Negative) (21 Jan 2019)  BWR AA+ (SO) (Stable) (Reaffirmed) (17 Dec 2018)	(Assigned & Reaffirmed) (27 Dec 2017)  BWR AA+ (SO) (Stable) (Reaffirmed) (6 Dec 2017)  BWR AA+ (SO) (Stable) (Assigned & Reaffirmed) (3 Jul 2017)
3	NCDs	Long Term	-	-	Withdrawn (25 Sep 2020)	BWR A+ (Stable) (Removed from Credit Watch with Developing Implication and assigned Stable Outlook ) (25 Sep 2019)  BWR A+ (Credit Watch with Developing Implications) (Assigned Standalone Ratings) (19 July 2019)	Provisional BWR AA- (SO) Credit watch with Negative Implications) (Downgraded) (9 March 2019)  Provisional BWR AA (SO) Credit watch with Negative Implications) (Downgraded) (6 Feb 2019)  BWR AA+ (SO) (Negative) (Assigned) (21 Jan 2019)	-
	<b>Total</b>		<b>600.00</b>	<b>Rupees Six Hundred Crores Only/-</b>				

### COMPLEXITY LEVELS OF THE INSTRUMENTS

Instruments	Complexity Levels
<b>NCDs</b>	<b>Simple</b>
<b>Subordinated Debt</b>	<b>Complex</b>

For more information, visit

[www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

Hyperlink/Reference to applicable Criteria

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

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**Avanse Financial Services Limited**

**ANNEXURE I**

**Details of Bank Loan Facilities rated by BWR: NA**

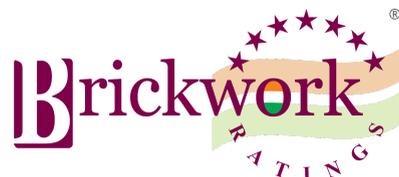
**ANNEXURE II**

**INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS**

Instrument	Issue Date	Amount [Rs.Crs.]	Coupon Rate	Maturity Date	ISIN Particulars
NCDs	31-Jul-15	25.00	10.10%	31-Jul-25	INE087P07022
NCDs	07-Aug-15	5.00	10.05%	08-Aug-22	INE087P07030
NCDs	07-Aug-15	15.00	10.10%	07-Aug-25	INE087P07048
NCDs	26-Feb-16	10.00	9.65%	26-Feb-23	INE087P07063
NCDs (Subordinated)	16-Mar-16	25.00	10.50%	16-Mar-24	INE087P08012
NCDs (Subordinated)	30-Jun-17	25.00	9.50%	30-Jun-27	INE087P08020
NCDs (Subordinated)	27-Dec-17	25.00	9.35%	27-Dec-27	INE087P08038
Proposed	-	470.00	-	-	-
<b>Total</b>		<b>600.00</b>	<b>Total Rs. Six Hundred Crs. Only</b>		

**ANNEXURE III**

**List of entities consolidated : NA**



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