

RATING RATIONALE

27 Oct 2022

Avanse Financial Services Limited

Brickwork Ratings revises the outlook from stable to positive and reaffirms the ratings of the Non Convertible Debentures aggregating to Rs.125 Crs & withdraws the rating for the proposed NCD aggregating to Rs.470 Crs of Avanse Financial Services Limited.

Particulars:

Instruments and Facilities	Amount (Rs in Crs)		Tenure	Rating*	
	Previous	Present		Previous 24 Sept 2021	Present
Secured NCDs	55.00	50.00	Long Term	BWR A+/Stable Reaffirmed	BWR A+/Positive (Reaffirmed with revision in outlook from Stable to Positive)
Unsecured Subordinated Debt	75.00	75.00	Long Term	BWR A+/Stable Reaffirmed	BWR A+/Positive (Reaffirmed with revision in outlook from Stable to Positive)
Proposed NCDs	470.00	-	Long Term	BWR A+/Stable Reaffirmed	Withdrawn on account of non utilization
TOTAL	600.00	125.00	Rupees One Hundred Twenty Five Crores only		

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

**Complete NCD details are provided in Annexure-I

An advisory for delay in rating review was published on 04 Oct 2022.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) revises the outlook from Stable to Positive and reaffirms the ratings of Non Convertible Debentures amounting to Rs. 125 Crs of Avanse Financial Services Ltd (hereafter referred to as “AFSL” or the Company), as tabulated above. The rating for proposed NCD issuances of AFSL amounting to Rs. 470 Crs stands withdrawn at the request of the company confirming its non utilization of the said proposed NCDs.

The revision in outlook from Stable to Positive factors in the substantial growth in AUM, consistent capital infusion from the promoters and improved earnings for FY22, which is expected to continue to improve over the near to medium term.

During FY22, AUM grew by 55% to Rs.4836 Crs, income grew by ~16% to Rs.508 Crs, net profit grew by ~66% to Rs.63 Crs, over FY21. Company’s existing shareholders, Warburg Pincus LLC and IFC had collectively infused ₹300 crore equity during FY20 and also infused Rs 390 Crs in Sept 22 by way of right issue. With this capital infusion, the TNW of the Company is expected to improve to ~Rs 1400 Crs, CRAR above 20% and had adequate liquidity to meet its near term repayment obligations. Gross NPA ratio improved to 1.29% in FY22 as against 1.58% in FY21 (improved to 1.24% as on June 2022). The company’s



growth in terms of AUM is expected to continue with incremental disbursements and steady collections over the near to medium term, which is also likely to improve the earnings of the company. Rating team considers these factors for the revision in the outlook as positive, while also continuing to monitor these growth factors across the financial parameters and other developments in the company over the near to medium term.

In FY22, the Company's loan book portfolio had improved from Rs 3103 Crs as on March 2021 to Rs 4836 Crs as on March 2022, further improved to Rs 5694 Crs as on June 2022 and ~Rs 7200 Crs as on Sept 2022. The Company expects AUM to grow to ~ Rs 8200 Crs for FY 23. The Company had projected total disbursement of ~ Rs 6000 Crs for FY 23 and against that Company had already disbursed ~ Rs 3200 Crs during half year ended 30 Sept 2022. Considering the current average monthly collections and disbursements, expected AUM for FY 23 seems achievable. The growth prospects are expected to continue for FY23, generating steady income through average yield of ~13% and NIM of ~5%; thereby providing steady return to its stakeholders.

The rating reaffirmation continues to factor in the vast experience of the board members and senior management, comfortable capitalization supported by additional capital infusion by the promoters, consistent growth in AUM, healthy profitability metrics and adequate liquidity profile.

The rating is however constrained by marginal increase in the GNPA levels, product concentration and geographical concentration risk.

BWR has principally relied on audited financials up to FY22, unaudited financial statements as on 30 June 2022, publicly available information and information/clarifications provided by the company.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

Nil

KEY RATING DRIVERS

Credit Strengths:-

Experienced promoters, board and management team:

Olive Vine Investment Limited, a Warburg Pincus group entity, acquired a substantial stake of ~80% in the company, which continues since FY20. The remaining 20% stake is held by International Finance Corporation (IFC).

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.

Company's existing shareholders, Warburg Pincus LLC and IFC had collectively infused ₹300 crore equity during FY20 and infused additional Rs 390 Crs in Sept 2022 by way of right issue while maintaining existing shareholding in the Company of 80:20 respectively.

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

The company is comfortably capitalized with net worth of Rs 1001 Crs as on March 22 improved from Rs 932 Crs as on March 21 on account of retention of entire profit into the business. With the increase in the borrowings from Rs 2343 Crs in March 21 to Rs 3610 Crs in March 22, gearing moderated to 3.58x as on March 22. CRAR moderated to 22.96% as on March 22 as against 30.49% as on March 21 on account of significant increase in the loan book in FY 22. However the same is within the regulatory requirement of minimum 15%.

Company's existing shareholders, Warburg Pincus LLC and IFC had collectively infused ₹300 crore equity during FY20 and also infused Rs 390 Crs in Sept 22 by way of right issue. With this capital infusion, the TNW of the Company is expected to improve. The Company expects gearing to be maintained at below 5x for FY 23. The ability of the company to raise capital, to maintain its capital adequacy, gearing levels and to achieve the projected AUM will be monitorable.

Consistent growth in AUM aided by high disbursements

The Asset under management (AUM) witnessed a growth of Rs 55.85% in FY 22 and was at Rs 4836 Crs as on 31 Mar 2022 as against Rs 3103 Crs as of 31 Mar 2021 and further improved to ~ Rs 7200 Crs as on 30 Sep 2022. The Company had made highest ever disbursements of Rs 2928 Crs in FY 22 as against pre COVID level of Rs 1422 Crs in FY 19 on the backdrop of easing of VISA norms for students by the major economies like USA, Australia, New Zealand etc and also with increase in the no. of students opting for studies at overseas universities. Out of the total AUM, the secured portfolio comprises 35% and unsecured -65%. 95% of the loans is towards the overseas education loan and 5% towards the domestic EL.

The Company expects AUM to grow to Rs 8300 Crs - Rs 8500 Crs as on 31 March 2023. Company expected disbursement of Rs 6000 Crs for FY 23 against which it has already disbursed ~ Rs 3200 Crs till Sept 2022. Out of the total disbursement of Rs 2928 Crs in FY22, Education loan (EL) comprises Rs 1600 Crs, Education Infrastructure Loan (EIL)+ Social Infrastructure Loan (SIL) Rs 500 Crs and Digital EL Rs 800 Crs. The Company had discontinued disbursements to Financial Institutions and MSME since the last couple of years and is only focused on recovering the dues in those segments.

Healthy Profitability metrics:

Total operating income of the Company has improved from Rs 439 Crs in FY 21 to Rs 508 Crs in FY 22 on account of increase in the disbursement level. With the improvement in interest income from Rs 412 Crs in FY 21 to Rs 475 Crs in FY 22 coupled with reduction in average cost of borrowings from 9.31% in FY 21 to 9.20% in FY 22 and Credit costs from 0.67% in FY 21 to 0.43% in FY 22, PAT improved from Rs 38 Crs in FY 21 to Rs 63 Crs in FY 22.

Return on Equity stands improved to 6.48% in FY 22 as against 4.60% in FY 21. The company reported total income and profit after tax (PAT) of Rs 181 crore and Rs 30 crore respectively, during Q1FY23 as against ₹113 crore and ₹12 crore, respectively, in Crs and Q1FY22 aided by growth in the scale of operations. Company estimated operating income & PAT to show a consistent growth in FY 23.

Healthy resource raising ability coupled with diversified resource base.

During FY 22, the Company was able to raise funds of Rs 2270 Crs, comprising Rs 635 Crs

from NCD, Rs 225 Crs from issue of Commercial paper and Rs 1410 Crs in the form of term loans from various Banks and Financial Institutions. Additionally, Company had mobilized total funds of Rs 2356 Crs in FY 23 (upto Aug 2022). Of this, the amount raised through issuance of NCD was Rs 1271 Crs, Commercial paper Rs 180 Crs and Term loans of Rs 905 Crs. The company has an established lender base of 29 lenders as on March 31, 2022.

The average cost of borrowing for Avanse has improved from 10.65% in FY 21 to 9.20% in FY22. The proportion of term loans from banks has improved while NCD reduced on account of redemption on due dates.. As on 31 March 2022, Bank borrowings constituted 59% of overall borrowings, followed by non-convertible debentures (NCDs) (33%), loans from financial institutions (FIs) (4.2%), ECB (3%) and CP (0.70%). Going forward, the ability of the company to raise the funds to support the estimated disbursements shall be a key monitorable.

Moderation in asset quality albeit remains monitorable.

The Company has reported improvement in GNPA (%) since COVID levels at 1.76% in March 20 to 1.58% in March 21 and further improved to 1.29% in March 22 (1.24% in June 22). However, GNPA level in absolute terms had increased from Rs 51.37 Crs in March 21 to Rs 61.90 Crs in March 22, particularly in the EIL segment. NNPA (%) marginally increased from 0.39% in FY 21 to 0.53% in FY 22. PCR was moderated to 59.31% in FY 22 from 75.18% in FY21. The Company had made higher provisions in FY 21 on account of uncertainty and impact of lockdowns due to COVID-19 on the asset quality of the Company. However, with the improvement in collection efficiency post removal of COVID lockdowns, the Company estimated to maintain PCR at 55-60%.

Collection Efficiency was above 93% during the 1st half of FY 21 and slowed down during the 1st half of FY 22. Collection efficiency started improving from Sept 2021 and has maintained at above 92% since then. Presently, the collection efficiency under EL segment is 99.50% and EIL is 93%.

During FY 22, Rs 3.68 Crs of GNPA upgraded to standard accounts and Company recovered Rs 7.05 Crs from the NPA accounts and had write-offs of Rs 2.50 Crs of NPAs. There were nil write offs of any accounts during FY 21 and recovered Rs 32.29 Crs from the NPAs.

The 90+ DPD (days past due) book stood at Rs 77 Crs as on 31 March 2022 out of which Rs 52 Crs (68%) pertains to LFI and MSME segment which was discontinued in 2019 and remaining 17% pertains to EIL and 15% EL. There are nil NPAs in Digital EL. The EL portfolio is granular in nature with average ticket size of Rs 15 Lakhs and Digital EL with average ticket size of Rs 55000. The Company is more cautious in giving loans under EIL and is more focused on increasing its retail portfolio under EL and Digital EL. However the entire EIL portfolio is secured. Portfolio in harder bucket (61-90 days) constitutes 0.34% of the AUM as on March 2022 as against 0.39% as on March 2021 which has further improved to 0.26% of AUM as on 30 June 2022. Portfolio with nil delinquency was 96.66% as on March 22 improved from 95.94% as on March 21 on account of improvement in collection efficiency. Going forward, the Company expects GNPA level to be at 1.22-1.25% for FY23 and overall asset quality levels are expected to improve gradually in the medium term with run-down of the MSME and LFI loan portfolio, which at present constitute around 2.5% of the total AUM. Going forward, the asset quality under EIL segment shall remain key monitorable, which at present had 90+ dpd of 1.84% of the AUM under the segment as on 30 June 2022.

The Company has done fresh restructuring of Rs 76.22 Crs in FY 22 with total restructured account outstanding as on 31 March 2022 was Rs 183 Crs (classified under stage-2 assets). Provision held against this was Rs 25.69 Crs i.e. 14.21%. Restructured books account for 3.78% of AUM as on 31 March 2022.

The Company had written off Rs 4.43 of Restructured Assets in FY 22 and Rs 1.70 Crs in Q1FY23.

The organization created an AI-ML-based platform that uses data to build perspective models to provide early warnings on customers who are most likely to default. This AI & ML-based collection platform is an initiative toward a bounce prediction model under risk analytics. It has been created to analyze and identify the accounts that might enter the Over Due (OD) stage. This analysis is conducted with the help of artificial intelligence and machine learning analytics. After the vulnerable accounts are identified, they are transferred to the next level. At this stage, the company reaches out to them for necessary reminders at regular intervals.

Product concentration:

AFSL is primarily into financing the Education Industry in the form of Education loans and Education Infrastructure Loans. The Company is exposed to sector concentration risk as any change in the sector will have a direct impact on the profitability of the Company.

The Company's collections were adversely affected during the COVID period wherein the GNPA level rose to 1.89% in March 20 & 1.58% in March 21 and 1.29% in March 22 as against GNPA level maintained at below 0.25% before COVID. However, the Company has been able to recover since then and with the improvement in collection efficiency, the NPA levels are showing a downward trend. Moreover, the Company has diversified into Digital lending which focuses on providing loans for e-learning & vocational courses. The Company has partnered with BYJUs and other EdTech Companies and doubled the portfolio from 6.85% in March 20 to 11% in March 22. The Company's aims to increase the Digital lending portfolio which is more granular in nature and nil NPAs as on 31 March 2022.

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

Upward: Significant growth in the AUM coupled with improved profitability, stable asset quality and additional equity infusion will be rating positives

Downward: Deterioration in the asset quality or earning profile and increase in the Gearing levels will be rating negatives

LIQUIDITY INDICATORS - Adequate

As on 30 June 2022, the Company had cash & cash equivalent of Rs 764 Crs and liquid investments of Rs 13 Crs and undrawn sanctions of Rs 850 Crs against which the Company has debt obligation of Rs 478 Crs for the period from July 2022 to June 2023. As on June 30, 2022, the company had positive cumulative surplus across all maturity-buckets of the asset liability management (ALM) profile.

COMPANY's / FIRM's 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. Olive Vine Investment Limited held an 80% equity stake, with the remaining 20% being held by IFC as of 30 Sept 2022.

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.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY 21 IND AS	FY 22 IND AS
Result Type		Audited	Audited
Asset under Management	Rs in Crs	3103	4836
Total Income	Rs in Crs	439	508
Profit after Tax	Rs in Crs	38	63
Tangible Net Worth	Rs in Crs	932	1001
Gearing	Times	2.46x	3.58x
CRAR	%	32.74	22.96
GNPA	%	1.58	1.29
NNPA	%	0.39	0.53

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

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

Sr. No.	Name of Facility/ Instruments	Current Rating (2022)			Rating History for the past 3 years		
		Type	Amount (Rs. Crs)	Rating	2021 24 Sept 2021	2020 25 Sept 2020	2019 25 Sept 2019
1	Secured NCDs	Long Term	50	BWR A+/Positive Reaffirmed with change in outlook from Stable to Positive	BWR A+/Stable (Reaffirmed)	BWR A+/Stable (Reaffirmed)	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)
2.	Unsecured Subordinated NCDs	Long Term	75	BWR A+/Positive Reaffirmed with change in outlook from Stable to Positive	BWR A+/Stable (Reaffirmed)	BWR A+/Stable (Reaffirmed)	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)
3.	Proposed NCDs	Long Term		Rs 470 Crs Withdrawn on account of non utilization	BWR A+/Stable (Reaffirmed)	BWR A+/Stable (Reaffirmed)	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)
	TOTAL		125	Rupees One Hundred Twenty Five 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 & Financial Institutions](#)

Analytical Contacts	
Tripti Agrawal Senior Analyst-Ratings Board:+91 80 40409940 Ext: 333 Tripti.a@brickworkratings.com	Hemant Sagare Director – Ratings Board:+91 80 40409940 Ext: 333 Hemant.s@brickworkratings.com
1-860-425-2742	media@brickworkratings.com

Avanse Financial Services Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR: NA

ANNEXURE II

INSTRUMENT (NCD) DETAILS:

Instruments / Series	Issue Date	Amt O/s 09 Sep 22	Coupon Rate p.a.	Maturity Date	ISIN No.
NCD 001	31-Jul-15	25	10.10%	31-Jul-25	INE087P07022
NCD 003	7-Aug-15	15	10.10%	7-Aug-25	INE087P07048
NCD Series 2 Tranche 2	26-Feb-16	10	9.65%	26-Feb-23	INE087P07063
Sub Debt Series 1	16-Mar-16	25	10.50%	16-Mar-24	INE087P08012
Sub Debt Series 2	30-Jun-17	25	9.50%	30-Jun-24	INE087P08020
Sub Debt series 3	27-Dec-17	25	9.35%	24-Dec-27	INE087P08038
		125			

ANNEXURE III

List of entities consolidated : NA

**For print and digital media**

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media

About Brickwork Ratings : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, , Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters 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.

DISCLAIMER : Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.



BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited. BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.