Rating Rationale

Avanse Financial Services Limited

6 Feb 2019

Brickwork Ratings revises the rating for the various existing debt instruments of Avanse Financial Services Limited ("AFSL" or "Company") to BWR AA (SO) and places them on Credit Watch with Negative Implications.

Particulars

Instruments#	Rated Amount (Rs in Crs)	Tenure	Rating*	
			Previous	Present
Fund Based				
Proposed unsecured subordinated NCDs	50.00	Long Term	Provisional BWR AA+ (SO) [Pronounced as BWR Double A Plus (Structured Obligation)] Outlook: Negative	Provisional BWR AA (SO) [Pronounced as BWR Double A (Structured Obligation)] Credit Watch with Negative Implications 'Downgraded'
Secured NCDs	525.00	Long Term	BWR AA+ (SO) [Pronounced as BWR Double A Plus (Structured Obligation)] Outlook: Negative	BWR AA (SO) [Pronounced as BWR Double A (Structured Obligation)] Credit Watch with Negative Implications 'Downgraded'
Unsecured Subordinated NCDs	75.00			
Total	**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
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:

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

The rating downgrade factors the downgrade of rating of DHFL, which was on account of sharp fall in disbursements and decrease in profitability of DHFL during Q3FY19, and an expectation of a continued slowdown in growth and pressure on profitability.

The ratings have been placed on 'Credit Watch with Negative Implications' following certain negative media reports on DHFL, which has impacted DHFL's financial flexibility to support AFSL. Any negative outcome of the investigations related to the negative media news related to DHFL will be the key rating sensitivity.

DHFL has however endeavored certain measures to restore lender and investor confidence and to strengthen its fundamental position. BWR will continue to monitor the developments in this regard and DHFL's ability to support its group companies in times of stress, while managing its own liquidity.

The rating continues to reflect expectation of support from the WGC group (collectively referring to DHFL, Wadhawan Global Capital Private Ltd and its promoters) for servicing of its financial obligations, comfortable asset quality and adequate capitalisation.

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 Gainda (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. Currently DHFL holds 30.63% and Wadhawan Global Capital Private Limited holds 49.04% stake in AFSL as on Dec 31, 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: The company has ~Rs 135 Crs of cash & bank balance and ~Rs 164 Crs of unutilised credit lines (term loans) as of Dec 31, 2018. The company does not have any outstanding commercial paper as on 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).

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 (Feb 2019)	Rating History						
				FY18		FY17	FY16	FY15	FY14
				21.1.19	3.07.17, 6.12.17, 27.12.17, 17.12.18	29.7.16	15.10.15, 31.03,16	9.06.14 & 23.01.15	18.2.14
1	Proposed Subordinated NCDs	50.00	Provisional BWR AA (SO) Credit Watch with Negative Implications	Provisional BWR AA+ (SO) Outlook: Negative	NA	NA	NA	NA	NA
2	Secured NCDs	525.00	BWR AA (SO) Credit Watch with Negative Implications	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) Credit Watch with Negative Implications	BWR AA+ (SO) Outlook: Negative	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	NA	NA
	Total	650.00							
1	Term Loans	100.00	NA	NA	NA	NA	NA	Rating Withdrawn	BWR AA (SO) (Stable)
	Total	100.00							

Status of non-cooperation with previous CRA : NA

Any Other Comments: NA

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- 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 31.1.19 (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
Total						**220.00**	**220.00**

For print and digital media

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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.

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