

Rating Rationale

Brickwork Ratings assigns 'BWR AA (SO)' for the Proposed Bank Loan Facilities aggregating ₹ 100 Cr of Avanse Financial Services Private Limited

Brickwork Ratings (BWR) has assigned the following **Rating¹** for the Proposed Bank Loan Facilities of Avanse Financial Services Private Limited (AFSPL)

Facility	Limit (₹ Cr)	Tenor	Rating
Term Loan	100.00	Long Term	BWR AA (SO) (BWR Double A Structured Obligation) (Outlook: Stable)
Total	100.00	INR One Hundred Crores only	

The rating has interalia factored credit enhancement in the form of a 'Letter of Comfort' from Dewan Housing Finance Corporation Limited (DHFL), rated BWR AAA (BWR Triple A) in favour of the lenders for the proposed bank facilities of Avanse Financial Services Private Limited (AFSPL). The rating also factors in the growth potential for education loans business in India, and experienced management team of AFSPL. The rating is, however, constrained by the small size of operations, limited track record with unseasoned portfolio and net loss position, which will continue for another two years. The continued support from DHFL, accelerating business growth & focusing on asset quality are the key rating sensitivities.

Background

Avanse Financial Services Pvt. Ltd. (AFSPL) was formed in August 1992 and was known as Abhivruddhi Holdings Pvt Ltd. (AHPL). Dewan Housing Finance Corporation Ltd. (DHFL) and the other promoter group entities bought 100% stake in AHPL in July 2012. The company's name was changed to AFSPL and a new certificate of registration was obtained from the RBI. International Finance Corporation (IFC) acquired 20% stake in the company for Rs.12.75 Cr in July 2013. DHFL continues to hold 48.50% stake in AFSPL. The promoter group entities hold another 31.50% stake in AFSPL till date. Thus, the total stake of DHFL and promoter group entities is 80% and the rest 20% shareholding is with International Finance Corporation (IFC).

Mr. Kapil Wadhawan is the Chairman and is supported by Mr. Neeraj Saxena, CEO.

AFSPL is engaged in the business of providing education loans. AFSPL started its business operations in January 2013 and has seven branches with a presence in major cities across India at the end of August 2013.

Incorporated in 1984, DHFL is one of the largest housing finance companies in India with the total asset size and loan portfolio of Rs.37,598 Cr and Rs.35,127 Cr, respectively, as on June 30, 2013.

¹ Please refer to www.brickworkratings.com for definition of the Rating

DHFL's debt instruments and bank facilities are rated 'BWR AAA'. DHFL has given a letter of comfort for the timely servicing the rated credit facility.

Business details:

AFSPL is engaged in the business of providing education loan for the purpose of higher studies both in India and abroad, and for professional/executive courses to working professional. AFSPL started its business operations in January 2013. As on December 2013, There has been equity infusion of Rs.55 Cr.(Rs.16 Cr as ordinary share capital and Rs.45 Cr as premium) into AFSPL .The total loan sanctions and disbursement stood at Rs.73 Cr and Rs.18 Cr till November 2013, with 237 customers.

Risk Assessment:

- Exposure to single asset class -AFSPL is into a single asset class of educational loans. This brings in concentration risk as any fall in demand for educational loan may impact the operations and profitability of the company. Also, educational loans have seasonal demand based upon the admission procedures in various institutions.
- Education Loans is a niche market, mainly serviced by Public Sector Banks so far, except for one NBFC. Overall asset quality and recovery indicators of Public Sector banks is average, however that of the NBFC is good.
- The company has just started its operations in January 2013 and has a very limited track record of its operations and their portfolio is unseasoned.
- DHFL, which currently holds 48.50% equity stake in AFSPL, has given a letter of comfort for the timely servicing of debt for the proposed Bank Loan facilities. Going forward, any change in the credit rating of DHFL will have bearing in the rating of AFSPL.

Rating Outlook

The company is expected to break even over the next 2 years. The continued support from DHFL provides rating of AFSPL a stable outlook. However consistent business growth across geographies and different educational streams, standard credit appraisal, and maintaining good asset quality with robust collection mechanism are the key rating sensitivities going forward.

Analyst Contact	Relationship Contact
analyst@brickworkratings.com	bd@brickworkratings.com
Phone	Media Contact
1-860-425-2742	media@brickworkratings.com

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