

RATING RATIONALE

25 Sept 2019

Avanse Financial Services Limited

Brickwork Ratings reaffirms the ratings and removes from Credit Watch with Developing Implications for the various debt instruments of Avanse Financial Services Limited (“AFSL” or “Company”). Brickwork ratings assigns a Stable outlook for the rating of various debt instruments.

Particulars:

| Instruments** | Amount (₹ Cr) | | Tenure | Rating* | |
|-----------------------------|---------------|------------|--|--|---|
| | Previous | Present | | Previous (July, 2019) | Present |
| Proposed unsecured NCDs | 50 | 50 | Long Term | BWR A+ Credit Watch with Developing Implications | BWR A+ Stable (Removed from Credit Watch with developing Implication and Assigned Stable outlook) |
| Secured NCDs | 525 | 525 | Long Term | BWR A+ Credit Watch with Developing Implications | BWR A+ Stable (Removed from Credit Watch with developing Implication and Assigned Stable outlook) |
| Unsecured Subordinated NCDs | 75 | 75 | | | |
| Total | 650 | 650 | INR Six Hundred Fifty Crores Only | | |

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

** Details of /NCD is provided in Annexure-I&II

RATING ACTION / OUTLOOK

In July 2019, Brickwork Ratings had revised the ratings and had placed the rating on Credit Watch with Developing Implications following the proposed stake sale by erstwhile promoters to Olive Vine Investment Limited an affiliate of the Warbug Pincus Group.

Subsequently all the required approvals have been received and Olive Vine Investment Limited (Warbug Pincus Group) has acquired majority stake (~80%) in AFSL from erstwhile promoters Wadhwan Global Capital Limited (WGC) and Dewan Housing Finance Corporation Limited (DHFL). Warburg Pincus and IFC have collectively infused Rs. 300 Crs into the company which has improved gearing of company to ~2.3 times and capital adequacy ratio to ~35.3%.



Since Warbug Pincus Group has completed the acquisition of 80% stake in AFSL and infused equity of Rs 300 Crs, Brickwork Ratings removes the ratings from Credit watch with developing implications and assigns a Stable outlook.

KEY RATING DRIVERS

Credit Strengths:

Experienced Management: AFSL has a well-experienced management team. Mr. Amit Gainda (CEO) has over two decades of experience in banking and financial services industry.

Comfortable Asset Quality: Adequate credit underwriting processes have helped the company in maintaining a comfortable asset quality. Gross NPA and Net NPA stood at 0.17% and 0.13% respectively as on March 31, 2019.

Adequate Capitalisation: Tangible net worth and overall Capital Adequacy ratio was at Rs 574 Crs and 21.97% respectively as on March 31, 2019 as compared to Rs 484.01 Crs and 25.71% as of March 31, 2018. Gearing was at 4 times as of March 31, 2019.

Credit Risks:

Limited Seasoning of Loan Portfolio and small scale of operations: The company started operations in 2013. However, majority of loan portfolio has been created in last two years. AUM has increased to Rs 2852 Crs as on March 31, 2019 against Rs 2187 Crs as of March 31, 2018. Further, more than 80% of the total portfolio is for a tenor of ~ 7 years. Overall asset quality is yet to be tested through different business cycles. As of March 31, 2019, 57% of loan portfolio constituted of Education Loans, 27% constituted of Education Infrastructure Lending, 8% constituted Lending to Financial Institutions, 8% was SME loans.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has evaluated the risk profile of AFSL on a standalone basis and factored the change in ownership to Warbug Pincus Group. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: The rating may be upgraded if the company is able to grow its portfolio while maintaining the asset quality and increase income and profitability levels.

Negative: The rating may be downgraded if the asset quality weakens or if the capital structure deteriorates.

LIQUIDITY POSITION: ADEQUATE

The company has ~Rs 567 Crs of liquidity out of which Rs. 403 Crs of FD, Mutual fund and cash & bank balance and Rs. 164 Crs of unutilised credit lines as of August 31, 2019. Company has been regular in meeting its debt obligations. The company does not have any outstanding commercial paper as on August 31, 2019.

COMPANY PROFILE:

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. At present, the company has 11 branches and 5 sales representative offices.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Total income (net of interest expenses) increased to Rs 164.91 Crs in FY19 against Rs 79.43 Crs in FY18, an increase of ~108% over previous year. Net profit increased to Rs. 27.27 Crs in FY19 against Rs 11.86 Crs in FY18, an increase of ~130%. The total portfolio increased to Rs. 2852 Crs as on March 31, 2019 against Rs. 2187 Crs as on March 31, 2018. Tangible net worth has improved to Rs. 574 Crs as on March 31, 2019 against Rs 485 Crs as on March 31, 2018. Gross NPA and Net NPA were 0.17% and 0.13% as of March 31, 2019. During Q1FY20, company has reported income of Rs 102.81 Crs.

| Key Parameters | Units | FY 2018 | FY 2019 |
|---|-----------|---------|---------|
| Result Type | | Audited | Audited |
| Total Income (Net of Interest Expenses) | Rs in Crs | 79 | 165 |
| Net Profit | Rs in Crs | 12 | 27 |
| Tangible Net Worth | Rs in Crs | 485 | 574 |
| Total Debt / Tangible Net worth | Times | 4 | 4 |

| | | | |
|------------|-----------|------|------|
| Total CRAR | % | 26 | 22 |
| Gross NPA | % | 0.09 | 0.17 |
| Net NPA | % | 0.07 | 0.13 |
| AUM | Rs in Crs | 2187 | 2852 |

RATING HISTORY

| Sn | Instruments | Amt Rs Crs | Current Rating (Sep 2019) | Rating History | | | | | | | |
|--------------|----------------------------|---------------|---------------------------------|--|--|---|---|---|---|---|---|
| | | | | FY19 | | | | | FY18 | FY17 | FY16 |
| | | | | 19.7.19 | 9.3.19 | 6.2.19 | 21.1.19 | 17.12.18 | 3.07.17 6.12.17 27.12.17 | 29.7.16 | 15.10.15, 31.03.16 |
| 1 | Proposed Subordinated NCDs | 50 | BWR A+ Stable | BWR A+ Credit Watch with Developing Implications | Provisional BWR AA- (SO) (Structured Obligation) Credit Watch with Negative Implications | Provisional BWR AA (SO) (Structured Obligation) Credit Watch with Negative Implications | Provisional BWR AA+ (SO) (Structured Obligation) Negative | NA | NA | NA | NA |
| 2 | Secured NCDs | 525 | BWR A+ Stable | BWR A+ Credit Watch with Developing Implications | BWR AA- (SO) (Structured Obligation) Credit Watch with Negative Implications | BWR AA (SO) (Structured Obligation) Credit Watch with Negative Implications | BWR AA+ (SO) (Structured Obligation) Negative | BWR AA+ (SO) (Structured Obligation) Stable |
| 3 | Subordinated NCDs | 75 | BWR A+ Stable | BWR A+ Credit Watch with Developing Implications | BWR AA- (SO) (Structured Obligation) Credit Watch with Negative Implications | BWR AA (SO) (Structured Obligation) Credit Watch with Negative Implications | BWR AA+ (SO) (Structured Obligation) Negative | BWR AA+ (SO) (Structured Obligation) Stable |
| Total | | 650 | | Rupees Six Hundred Fifty Crores Only/- | | | | | | | |

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf
Hyperlink/Reference to applicable Criteria

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

| Analytical Contacts | Investor and Media Relations |
|--|---|
| <p>Praful Kumar Dave Primary Analyst Board: +91 22 6745 6638 Prafulkumar.d@brickworkratings.com</p> <p>Rajat Bahl Chief Analytical Officer & Head – Financial Institutions +91 22 6745 6634 rajat.b@brickworkratings.com</p> | <p>M : +91 7738875550 B : +91 22 6745 6666 investordesks@brickworkratings.com</p> |

ANNEXURE I

INSTRUMENT (NCD) DETAILS rated by BWR

| Instruments | Issue date | Amount in Crs | Coupon Rate | Maturity Date | ISIN Particulars |
|-------------------|------------|---------------|-------------|---------------|------------------|
| Secured NCDs | 31/Jul/15 | 0.50 | 10.10% | 31/Jul/25 | INE087P07022 |
| Secured NCDs | 31/Jul/15 | 15.00 | 10.10% | 31/Jul/25 | INE087P07022 |
| Secured NCDs | 31/Jul/15 | 9.50 | 10.10% | 31/Jul/25 | INE087P07022 |
| Secured NCDs | 07/Aug/15 | 5.00 | 10.05% | 08/Aug/22 | INE087P07030 |
| Secured NCDs | 07/Aug/15 | 5.00 | 10.05% | 08/Aug/22 | INE087P07030 |
| Secured NCDs | 07/Aug/15 | 7.00 | 10.10% | 07/Aug/25 | INE087P07048 |
| Secured NCDs | 07/Aug/15 | 8.00 | 10.10% | 07/Aug/25 | INE087P07048 |
| Secured NCDs | 26/Oct/15 | 10.00 | 9.55% | 26/Oct/20 | INE087P07055 |
| Secured NCDs | 26/Feb/16 | 10.00 | 9.65% | 26/Feb/23 | INE087P07063 |
| Secured NCDs | 03/Nov/17 | 25.00 | 8.65% | 02/Nov/20 | INE087P07089 |
| Secured NCDs | 29/Jun/18 | 50.00 | 9.35% | 27/Sep/19 | INE087P07097 |
| Subordinated NCDs | 16/Mar/16 | 19.00 | 10.50% | 16/Mar/24 | INE087P08012 |
| Subordinated NCDs | 16/Mar/16 | 6.00 | 10.50% | 16/Mar/24 | INE087P08012 |
| Subordinated NCDs | 30/Jun/17 | 25.00 | 9.50% | 30/Jun/27 | INE087P08020 |
| Subordinated NCDs | 27/Dec/17 | 25.00 | 9.35% | 27/Dec/27 | INE087P08038 |
| Total | | 470.00 | | | |



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