

Rating Rationale

Avanse Financial Services Limited

July 03, 2017

Brickwork Ratings assigns rating for the Proposed Unsecured Subordinated NCD issue up to ₹ 25 Crores and reaffirms the existing ratings for various Debt issues of Avanse Financial Services Limited (“AFSL” or “the Company”)

Brickwork Ratings (BWR) assigns the rating for the proposed facility of Avanse Financial Services Limited (‘AFSL’ or ‘the Company’) as detailed below:

Issue	Limit (₹ Cr)	Tenure	Rating ¹
Proposed Unsecured Subordinated NCD	25	Long Term	BWR AA+ (SO) Outlook: Stable

It has also reaffirmed the **Ratings¹** for various Debt issues as detailed below:

Issues [#]	Issue Size (₹ Cr)	O/S 28-Jun-2017 (₹ Cr)	Tenure	Rating History (July 2016)	Rating Reaffirmed
Secured NCD	75	70	Long Term	BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable
Secured NCD	150	Nil		BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable
Unsecured Subordinated NCD	25	25		BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable

¹Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

[#]Details of these issues are provided below

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the, audited financial results of the Company up to FY17, projections, draft term sheet of the issue, publicly available information, and information/clarifications provided by the Company's management.

The rating has factored, *inter alia*, the credit enhancement in the form of "Letter of Comfort" issued by the promoter Dewan Housing Finance Corporation Limited (DHFL) (Rated: BWR AAA), in favour of the investors of AFSL, synergy with DHFL in the form of its involvement in AFSL's strategic decision making, policy formulation and implementation and also in the form of operational and financial support, comfortable capitalization and effective credit risk management practices. The rating is however, constrained by the limited track record of the Company, unseasoned nature of portfolio, relatively moderate size of loan book and competition from banks, in general.

Rating Outlook: Stable

BWR believes AFSL's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating derives strength from the credit enhancement of the DHFL and any change in its rating will also reflect on the rating of AFSL. Any major volatility in profitability or deterioration in asset quality with impact on capital adequacy levels, may lead to revision in the rating or the outlook.

About the Company

Avanse Financial Services Limited (AFSL) was 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 the company's name was changed to Avanse Financial Services Private Limited (AFSPL) and a new certificate of registration was obtained from the RBI, for carrying on the NBFC activities. On February 04, 2014 the name of the company was changed from AFSPL to Avanse Financial Services Limited. As of March 31, 2017, DHFL had 36.78% stake in AFSL with Wadhawan Global Capital Private Limited having 42.60% and International Finance Corporation (IFC): 20.00%.

Management Profile

Mr. Kapil Wadhawan (Chairman and Managing Director of DHFL) is currently the Chairman of AFSL. Besides him, the Board has three Non-Executive Directors and two Independent

Directors. AFSL has a team of well-qualified and experienced professionals looking after credit, risk, marketing, audit and other support functions.

AFSL is engaged in the business of providing education loan to students for pursuing higher studies both in India and abroad, mainly for graduate/ post-graduate courses. It also provides Education Institution Loans to enterprises / institutions involved directly or indirectly in the field of education or training. Loan portfolio O/S increased from ₹ 529.6 Crores as of March 31, 2016 to ₹ 982.3 Crores as of March 31, 2017. Gross NPA (on 120 dpd basis) stood at 0.29% (0.05% on 150 dpd basis as of March 31, 2016). The Provision coverage ratio was at 14.18% (10.71%). Its capital adequacy in the form of CRAR stood at 16.50% as of March 31, 2017 which is in compliance with the RBI's stipulated requirement of minimum 15%. Company's Tier I CRAR stood at 13.63%. The Company has a conservative Asset Liability Management approach and has comfortable liquidity position both in the short and the long term.

Company's Financial Performance

Total Income from Operations for the Company stood at ₹ 106.3 Crores for FY17 compared to ₹ 54.3 Crores for FY16, a y-o-y growth of ~96%, while Net Income from Operations (Total Income from Operations net of Interest Expenses) increased from ₹ 21.9 Crores for FY16 to ₹ 41.3 Crores for FY17. PAT improved from ₹ 2.7 Crores in FY16 to ₹ 5.6 Crores in FY17. Return on assets was 0.66% for FY17.

Rating History for the last three years:

Sl. No.	Instrument/ Facility	Current Rating (Year 2017)		Rating History			
				2016	2015	2014	
1	Proposed Unsecured Subordinated NCD	Long Term	25	BWR AA+ (SO) Outlook: Stable	NA	NA	NA
2	Secured NCD		75	BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable	NA
3	Secured NCD		150	BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable	NA	NA
4	Unsecured Subordinated NCD		25	BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable	NA	NA

Details of the issues

Instrument	Issue Date	Amount	Coupon	Maturity Date	ISIN Particulars	Rating
NCD 001	31/Jul/15	25.00	10.10%	31/Jul/25	INE087P07022	BWR AA+ (SO) Outlook: Stable
NCD 002	7/Aug/15	10.00	10.05%	8/Aug/22	INE087P07030	BWR AA+ (SO) Outlook: Stable
NCD 003	7/Aug/15	15.00	10.10%	7/Aug/25	INE087P07048	BWR AA+ (SO) Outlook: Stable
Series 2 Tranche 1	26/Oct/15	10.00	9.55%	26/Oct/20	INE087P07055	BWR AA+ (SO) Outlook: Stable
Series 2 Tranche 2	26/Feb/16	10.00	9.65%	26/Feb/23	INE087P07063	BWR AA+ (SO) Outlook: Stable
Sub Debt Series 1	16/Mar/16	25.00	10.50%	16/Mar/24	INE087P08012	BWR AA+ (SO) Outlook: Stable

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Banks & Financial Institutions](#)
- [Rating based on Group Support](#)
- [Structured Obligation \(SO\) Instruments](#)

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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.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.