

Rating Rationale

Avanse Financial Services Ltd

December 6, 2017

Brickwork Ratings assigns Rating to the Proposed NCD of Rs. 300 Cr. Avanse Financial Services Ltd.

Particulars

Facility	Amount (Rs. Crs)	Tenor	Rating Assigned*
Proposed NCD	300.00	Long Term	BWR AA+ (SO) [Pronounced as Double A Plus (Structured Obligation)] (Outlook:Stable)
Total	300.00	(Rupees Three Hundred Crore Only)	

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

Other outstanding NCD ratings of Avanse Financial Services Ltd are:

Instrument	Amount in Crs	Coupon	Allotment Date	Redempti on Date	ISIN No.	Previous Rating	Present Rating
NCD 001	25	10.10%	31-Jul-15	31-Jul-25	INE087P07022	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)
NCD 002	10	10.05%	7-Aug-15	8-Aug-22	INE087P07030		
NCD 003	15	10.10%	7-Aug-15	7-Aug-25	INE087P07048		
Series 2 Tranche 1	10	9.55%	26-Oct-15	26-Oct-20	INE087P07055		
Series 2 Tranche 2	10	9.65%	26-Feb-16	26-Feb-23	INE087P07063		
Sub Debt Series 1	25	10.50%	16-Mar-16	16-Mar-24	INE087P08012		
Sub Debt Series 2	25	9.50%	30-Jun-17	30-Jun-27	INE087P08020		
Series 4 Tranche 1	25	8.60%	3-Nov-17	2-Nov-17	INE087P07089		
Total	145	-	-	-	-		
Unraised NCD	130	-	-	-	-		
Total	275	-	-	-	-		

Rationale / Description of Key rating drivers / Rating Sensitivities:

BWR has essentially relied upon the audited financial results of the Company up to FY17, 1HFY18 provisional financials, publicly available information and information/clarification provided by the company.



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.

Analytical Approach:

Key Risk Drivers:

1. **Growth in company’s operation:** Educational Loans is a niche area, and expected to grow well in the coming years. The experience of the public sector banks in this segment of loan are however not encouraging. AFSL started operations in 2014 and within a span of three years; loan outstanding portfolio has grown significantly.
2. **Experienced and qualified management:** The entire group is being managed by experienced and qualified professionals.
3. **Satisfactory Asset Quality:** AFSL had a Gross NPA of 0.19% and Net NPA of 0.15% 30 Sep, 2017.
4. **Comfortable Capitalisation:** AFSL has total Capital Adequacy Ratio of 18.86% as on 30 Sep 2017.
5. **Strong Credit Appraisal:** AFSL has highly qualified and professional credit monitoring team.
6. **Credit Enhancement from DHFL:** AFSL has received credit enhancement in the form of “Letter of comfort” issued by Dewan Housing Finance Corporation Limited (DHFL), (rated BWR AAA).
7. **High Competition:** Company continues to face strong competition from banks, especially PSBs, who extend liberal loans, based on government guidelines.

Rating Outlook:

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 42.76% and International Finance Corporation (IFC): 20.00%.

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 ₹982.30 Crores as of March 31, 2017 to ₹1406.49 Crores as of September 30, 2017. As of September 30, 2017 Gross NPA (on 120 dpd basis) stood at 0.19%. The Provision coverage ratio was at 21.56%. Its capital adequacy in the form of CRAR stood at 18.86% as of September 30, 2017 which is in compliance with the RBI's stipulated requirement of minimum 15%. Company's Tier I CRAR stood at 14.80%. The Company has a conservative Asset Liability Management approach and has comfortable liquidity position both in the short and the long term.

Company 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. As reported by the Company, total income from operations for the period ending September 30, 2017 stood at ₹ 83.22 Crores, Net Income from Operations (Total Income from Operations net of Interest Expenses) stood at ₹ 34.55 Crores and PAT stood at ₹ 5.54 Crores.

Key Financial Figures:

Rs. CR	FY16	FY17	1HFY18
Total Operating Income	54.27	106.31	83.22
Net Operating Income	21.90	41.35	34.55
PAT	2.68	5.60	5.54
TNW	134.65	140.25	220.19
Total Borrowings	485.37	895.00	1206.76
GNPA (%)	0.05%	0.29%	0.19%
NNPA (%)	0.05%	0.25%	0.15%
Total CRAR (%)	29.54%	16.50%	18.86%

Rating History for the last three years (including withdrawn/suspended ratings)

Sl. No.	Instrument/ Facility	Current Rating (Year 2017)		Rating History			
				2016	2015	2014	
1	Unsecured Subordinated NCD	Long Term	25	BWR AA+ (SO)	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)	NA	NA
4	Unsecured Subordinated NCD		25	BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO)	NA	NA
	Proposed NCD			BWR AA+ (SO) Outlook: Stable	NA	NA	NA
	Total		275 Two Hundred and Seventy Five Crores only				

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Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website

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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

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