Rating Report

Brickwork Ratings assigns the Issuer rating of BWR AA- with Stable Outlook for Au Financiers (India) Limited

Brickwork Ratings (BWR) has assigned the **Issuer Ratings**[1] of '**BWR AA-**' (Pronounced BWR Double A Minus) with **Stable Outlook** for Au Financiers (India) Limited ('AUFIL' or 'the Company').

Instruments with this rating are considered to have **high degree** of safety regarding timely servicing of financial obligations. Such instruments carry very low credit risk.

BWR has principally relied upon the audited financial results of the Company up to FY15, provisional financials for H1FY16, projections, publicly available information and information/clarifications provided by the Company's management.

The rating has factored, inter alia, the experienced & professional management in place, presence of strategic investors providing financial strength & flexibility, growing business profile, comfortable capital adequacy with regular capital infusion, diversification in terms of geography and products offerings, robust asset quality and improving operating performance. The rating is however, constrained by moderately seasoned non-vehicle loan portfolio and the competitive landscape for NBFCs.

Background

Au Financiers was set up in 1996 by a first generation entrepreneur Mr. Sanjay Agarwal. The company is an RBI registered Non-banking finance company (NBFC) operating in the asset finance space, primarily offering financing for both new and used commercial vehicles, loans to MSMEs/ SMEs and housing Loans through its wholly owned subsidiary Au Housing Finance Limited. AUFIL's Asset under Management (AUM), at consolidated level was at ` 7,566 Crores as of September 30, 2015. The promoter, including Mr. Sanjay Agarwal, holds around 29.73% in the Company, followed by non-promoter holdings of Redwood Investment Limited - managed by Warburg Pincus of 27.07%, International Finance Corporation of 13.72% and other Institutional Investors. In October 2015, AUFIL has received in principle license of a Small Finance Bank (SFB) which is valid for 18 months during which the Company has to comply with all the regulatory requirements set for the SFBs.

Management Profile

Mr. Sanjay Agarwal is the Promoter and Managing Director of AUFIL and Mr. Uttam Tibrewal is the Executive Director. Besides them, the Board has three Independent Directors and three Investor Directors who are representatives of Warburg Pincus, Chrys Capital and Kedaara Capital.

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

The company has a team of well-qualified and experienced professionals looking after credit, risk, marketing, audit and other support functions including Mr. Deepak Jain, Chief Financial Officer.

Business operations

AUFIL is operating in the asset finance space, primarily offering financing for both new and used commercial vehicles, loans to MSMEs/ SMEs and housing Loans through its wholly owned subsidiary Au Housing Finance Limited. As of September 30, 2015, the Company is operating in 10 states through its expanding network of around 279 branches with AUM concentration of around 58% coming from Rajasthan followed by Maharashtra at 15% and Gujarat at around 13%.

The Company's Asset under Management, at consolidated level, has increased from ` 4,855 Crores as of March 31, 2014 to ` 6,411 Crores as of March 31, 2015, a y-o-y growth of 32.0% and further to ` 7,566 Crores as of September 30, 2015. AUM, at standalone level, has increased from ` 4,449 Crores as of March 31, 2014 to ` 5,568 Crores as of March 31, 2015, a y-o-y growth of 25.2% and further to ` 6,483 Crores as of September 30, 2015. In terms of standalone AUM, around 47% is contributed by MSME/SME segment.

Asset Quality

As of March 31, 2015, at standalone level, the Gross NPA of the Company stood at 1.76% (1.73% as of FY14 end) and remained at same level as of September 30, 2015 mainly contributed by the vehicle loan segment. Net NPA stood at 0.44% (0.42% as of FY14 end) which increased to 1.17% in H1FY16. Provision Coverage ratio stood at 33.74% as of September 30, 2015. The NPA recognition norm has changed from 180 dpd+ till FY15 to 150 dpd+ in FY16. In general, with the slow-down in economy, sectors like mining, construction and logistics have experienced revenue constraints, and this has affected the asset quality of NBFCs, which have lent to such sectors.

Capital adequacy

AUFIL's Tangible Net Worth increased from ` 632 Crores in FY14 to ` 796 Crores in FY15, mainly on account of retention of profits for the year and infusion of capital of around ` 38 Crores in FY15. The total amount invested in subsidiaries and associate companies is around ` 85 Crores as of March 31, 2015. Its capital adequacy in the form of CRAR stood at 18.54% as of March 31, 2015 (20.44% as of March 31, 2014). It has continuously maintained CRAR well above the RBI's minimum stipulated requirement of 15%. Company's Tier I CRAR stood at 17.07% as of March 31, 2015.

On a provisional basis, TNW of the Company was at ` 866 Crores and Total CRAR at 18.46% as of September 30, 2015.

Liquidity

As of November 30, 2015, Company's borrowings are by way of Bank borrowings: ` 932 Crores, NCD: ` 2,132 Crores, Subordinated Debt: ` 360 Crores, Commercial Papers: ` 600 Crores and through Securitization: ` 2,203 Crores. The Company has a comfortable liquidity position as the tenure of its assets is well matched by the tenure of its liabilities.

Earnings Quality

On a standalone basis, total operating Income for the Company stood at ` 725.2 Crores for FY15 compared to ` 610.7 Crores for FY14, a y-o-y growth of ~19%, while Net Operating Income increased from ` 321.7 Crores for FY14 to ` 443.2 Crores for FY15, a y-o-y growth of ~38%. Net Interest Margin improved from 8.1% for FY14 to 9.1% for FY15 due both to increase in earning assets yield and decrease in cost of funds. PAT improved significantly to ` 140.2 Crores from ` 92.4 Crores in FY14. Return on Asset was at around 2.70% for FY15 (2.27% in FY14).

Key performance /financial indicators have been shown in Annexure I, II and III

Rating Outlook

The outlook is expected to be stable over the current year. Going forward the ability of the Company to grow profitably, prudently manage its asset quality, maintain healthy capitalization level and cope with the changing & competitive nature of the finance industry would be the key rating sensitivities.

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Au Financiers (India) Limited

Annexure I: (Standalone) Profit & Loss Summary

P & L Summary (` Cr)	FY13 (A)	FY14 (A)	FY15 (A)
Total Operating Income	437.88	610.68	725.20
Total Finance Cost	201.58	288.94	281.97
Net Operating Income	**236.30**	**321.74**	**443.23**
Other Income	2.98	7.98	12.26
Total Income	**239.28**	**329.72**	**455.49**
Employee Benefit Expenses	52.10	69.68	94.52
Provision & Write offs	24.14	76.52	91.74
Other Expenses	42.12	41.83	54.34
PBDTA	**120.92**	**141.69**	**214.89**
Depreciation	2.91	3.30	6.52
Prior period item	3.79	0.00	0.00
PBT	**114.22**	**138.39**	**208.37**
Taxes	34.02	46.00	68.14
PAT	**80.20**	**92.39**	**140.23**

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Annexure II: (Standalone) Balance Sheet Summary

Equity & Liabilities (` Cr)	FY13 (A)	FY14 (A)	FY15 (A)
Shareholders' Fund	**465.53**	**641.27**	**810.76**
Share Capital	40.47	42.96	44.08
Reserves & Surplus	425.06	598.31	766.68
Non-Current Liabilities	**1488.93**	**1314.63**	**1661.18**
Long Term Borrowings	1462.51	1273.46	1579.57
Other Long Term Liabilities	12.19	14.98	42.91
Long Term Provisions	14.23	26.19	38.70
Current Liabilities	**1184.72**	**1057.03**	**1575.48**
Short Term Borrowings	677.78	468.47	972.64
Trade Payables	8.85	11.78	11.93
CPLTD	341.78	388.12	326.11
Other Current Liabilities	148.55	176.76	241.44
Short Term Provisions	7.76	11.90	23.37
Total	**3139.18**	**3012.93**	**4047.42**
Assets (` Cr)			
Non-Current Assets	**1320.71**	**1625.47**	**2412.31**
Tangible Assets (Net)	15.81	16.05	17.23
Intangible Assets (Net)	0.81	0.81	1.29
Capital WIP	0.14	0.00	1.23
Non-current Investments	56.67	87.36	112.65
Deferred Tax Assets (Net)	4.40	9.09	14.56
Receivable under Financing activity	1193.04	1491.41	2248.16
Long Term Loans and Advances	6.75	16.22	11.75
Other Non-Current Assets	43.09	4.53	5.44
Current Assets	**1818.47**	**1387.46**	**1635.11**
Current Investments	682.02	26.20	27.19
Trade Receivables	4.45	0.18	0.10
Cash and Bank balances	376.02	203.36	202.92
Receivable under Financing activity	691.43	1096.70	1364.65
Short Term Loans and Advances	27.94	33.07	13.10
Other Current Assets	36.61	27.95	27.15
Total	**3139.18**	**3012.93**	**4047.42**

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Annexure III: (Standalone) Key Ratios

Ratios	FY13 (A)	FY14 (A)	FY15 (A)
Yield on earning assets (%)	18.11%	17.06%	17.60%
Cost of funds (%)	11.63%	11.15%	10.55%
Net interest spread (%)	6.48%	5.91%	7.05%
Net interest margin (%)	7.6%	8.1%	9.1%
Cost to Income Ratio	41.11%	35.20%	34.27%
Return on Equity (%)	20.09%	20.00%	21.94%
Return on assets (%)	2.48%	2.27%	2.70%