

Rating Report

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

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

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, inter alia, 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 favor of the lenders for the proposed bank facilities of Avanse Financial Services Limited (AFSL). The rating also factors in the growth potential for education loans business in India, and experienced management team of AFSL. 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 Ltd (AFSL) 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 AFSP and a new certificate of registration was obtained from the RBI. International Finance Corporation (IFC) acquired 20% stake in the company for ₹12.75 crores in July 2013. DHFL continues to hold 48.50% stake and the promoter group entities hold another 31.50% 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).

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

With effect from 4th February 2014, it is reconstituted as Avanse Financial Services Ltd., dropping the word 'Private' from the name, and a revised Certificate of Incorporation is issued by the Registrar of Companies, Mumbai.

Business details:

AFSL 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. AFSL started its business operations in January 2013, and has seven branches with a presence in major cities across India. As on 31 March 2014, there has been equity infusion of ₹61 crores (₹16 crores as ordinary share capital and ₹45 crores as premium) into AFSL. The total loan sanctions and disbursement stood at ₹73 crores and ₹18 crores till November 2013 with 237 customers.

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

Risk Assessment:

- Exposure to single asset class: AFSL is into a single asset class, viz., 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, and yet to establish a sizeable presence in India, though Public Sector Banks and some NBFCs are active. Overall asset quality and recovery indicators are average.
- 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 AFSL, has given a letter of comfort for the timely servicing of debt for the proposed Bank Loan facilities. Incorporated in 1984, DHFL is one of the largest housing finance companies in India with the total asset size and loan portfolio of ₹37,598 crores and ₹35,127 crores, respectively as on June 30, 2013. DHFL's debt instruments and bank facilities are rated 'BWR AAA'. Going forward, any change in the credit rating of DHFL will have bearing in the rating of AFSL.

Financial Performance

AFSL has achieved the sales revenue of ₹2.78 Crores in FY14. The company reported the net loss of ₹4.7 Crores in FY14 as against ₹0.65 Crore in FY13. The Tangible net worth is at ₹56.36 Crores as on March 31, 2014 as compared to ₹10.77 Crores in FY13.

Rating Outlook

The company is expected to break even over the next 2 years. The continued support from DHFL provides rating of AFSL 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.

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