

Rating Report

Brickwork Ratings assigns/reaffirms the ratings with Stable Outlook for the various debt issues of Avanse Financial Services Limited

Brickwork Ratings (BWR) has assigned the **Ratings¹** of '**BWR AA+ (SO)**' [Pronounced BWR Double A Plus (Structured Obligation)] with **Stable Outlook** for the proposed Secured Non-Convertible Debenture (NCD) issue up to ₹150 Crores of Avanse Financial Services Limited ('AFSL' 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.

Other outstanding Ratings that were reviewed and reaffirmed for Avanse Financial Services Limited are as per the table below:

Instruments	Issue Size (Cr)	O/S 11-Jul-2016 (Cr)	Tenure	Rating History (Mar 2016)	Rating Reaffirmed
Secured NCD	75	70	Long Term	BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable
Subordinated NCD	25	25		BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable

BWR has principally relied upon the, audited financial results of the Company up to FY16, financial 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.

Background

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.

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

On February 04, 2014 the name of the company was changed from AFSP to Avanse Financial Services Limited. As of March 31, 2016, DHFL had 36.78% stake in AFSL followed by Wadhawan Global Capital Private Limited: 42.60% and International Finance Corporation (IFC): 20.00% after the recent round of capital infusion of around ` 40 Crores from the existing shareholders.

Management Profile

Mr. Kapil Wadhawan (Chairman and Managing Director of DHFL) is currently the Chairman of AFSL. Besides him, the Board of Directors of AFSL consists of Mr. Anoop Pabby and Mr. Suresh Mahalingam as Directors, who are experienced professionals working for the Group, and Mr. Mahendra Chouhan as Independent Director. Ms. Aruna Wadhawan has been appointed as a Woman Director on the Board in March 2016. AFSL has a team of well-qualified and experienced professionals looking after credit, risk, marketing, audit and other support functions.

Business operations & volume

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 Infrastructure Loans to enterprises / institutions involved directly or indirectly in the field of education or training. It currently has eight branches at Mumbai, Delhi, Chennai, Bengaluru, Hyderabad, Pune, Kolkata and Ahmedabad. The total loan disbursement up to March 31, 2016 stood at ` 597 Crores and loan O/S as of March 31, 2016 is around ` 530 Crores compared to ` 239 Crores as of March 31, 2015.

Proposed NCD Structure

Important terms of the proposed Secured NCD as per the draft term sheet shared by the Company are as follows:

1. It is a Secured redeemable NCD to be privately placed
2. DHFL, Promoter Group Company, has provided a letter of comfort for AFSL signed by the Chairman and Managing Director of DHFL
3. The tenor of the instrument is 5 to 7 years from the deemed date of allotment with actual proportion to be decided
4. The instrument is to be issued and redeemed at par on maturity

Asset Quality

As of March 31, 2016, the Gross NPA of the Company was 0.05%. The business itself being new and repayment of most loans starting on completion of the courses, the portfolio is not seasoned yet. Provisioning for the assets has been done as per the guidelines of RBI.

Capital adequacy

AFSL's Tangible Net Worth increased from ` 92.02 Crores as of March 31, 2015 to ` 134.55 Crores as of March 31, 2016, on account of infusion of capital of around ` 40 Crores by existing shareholders in FY16 and after considering the accumulated losses.

AFSL's capital adequacy in the form of CRAR stood at 29.54% as of March 31, 2016 which is well above the RBI's minimum stipulated requirement of 15%. This will enable the company to plan for increase in the loan book size, by mobilizing funding resources.

Funding and Liquidity

As of March 31, 2016, Company's borrowings aggregated ` 485 Crores and are by way of Bank Borrowings: ` 390 Crores, Secured NCD: ` 70 Crores and Subordinated NCD: ` 25 Crores. The Company has a comfortable liquidity position both in the short and long term.

Earnings Quality

For FY16, Total Income from Operations for the Company stood at ` 54.27 Crores compared to ` 18.24 Crores for FY15, while Net Income from Operations (Total Income from Operations net of Finance Cost) increased from ` 10.85 Crores to ` 21.90 Crores. Net Interest Margin was at 3.80% for FY16 a decline compared to 5.32% for FY15 due to increase in leverage. The Company reported its first profit after tax since inception however it still has high operating expenses, which is also reflected in the high cost to income ratio of 85%.

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

Rating Outlook

The rating has factored the credit enhancement in the form of a 'Letter of Comfort' issued by Dewan Housing Finance Corporation Limited (DHFL), in favour of the investors of Avanse Financial Services Limited. The outlook is expected to be stable over the current year, based on the support of the Promoter Group. Going forward, the ability of the Company to expand its overall size of operations within the regulations, improve earning profile and manage the asset quality as the portfolio gets seasoned would be the key rating sensitivities.

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Avanse Financial Services Limited
Annexure I: Profit & Loss Summary

P & L Summary (` Cr)	FY14 (A)	FY15 (A)	FY16 (A)
Interest Income	1.89	14.94	49.30
Income from Loan Related Services	0.89	3.30	4.97
Total Income from Operations	2.78	18.24	54.27
Finance Cost	0.03	7.39	32.37
Net Income from Operations	2.75	10.85	21.90
Other Income	3.19	1.54	4.00
Total Income	5.94	12.39	25.90
Operating Expense	10.40	16.59	21.93
Provision for contingencies	0.12	0.47	1.02
PBDTA	(4.58)	(4.67)	2.95
Depreciation	0.12	0.29	0.37
PBT	(4.70)	(4.96)	2.58
Taxes	0.00	0.00	(0.10)
PAT	(4.70)	(4.96)	2.68

Avanse Financial Services Limited
Annexure II: Balance Sheet Summary

Liabilities (` Cr)	FY14 (A)	FY15 (A)	FY16 (A)
Equity and Liabilities	56.37	92.17	134.65
Share capital	16.35	25.21	33.17
Reserves and Surplus	40.02	66.96	101.48
Non-current liabilities	0.44	151.44	470.20
Long-Term Borrowings	0.00	149.38	465.62
Long-Term Provisions	0.40	1.15	2.26
Other Long Term Liabilities	0.04	0.91	2.32
Current liabilities	1.27	36.42	28.61
Short-Term Borrowings	0.00	24.60	0.00
CPLTD	0.00	8.13	19.75
Trade Payables	0.22	0.10	0.78
Other Current Liabilities	1.05	3.53	8.04
Short-Term Provisions	0.00	0.06	0.04
Total Liabilities	58.08	280.03	633.46
Assets (` Cr)			
Non-current assets	47.39	231.00	511.11
Net Fixed assets	0.48	0.51	0.76
Net Intangible assets	0.08	0.15	0.10
Deferred Tax Assets (Net)	0.00	0.00	0.75
Long Term Loans and Advances	46.83	230.34	509.50
Current assets	10.69	49.03	122.35
Current Investments	0.00	0.00	0.00
Cash and Cash Equivalentents	7.09	37.40	95.66
Short-Term Loans and Advances	3.48	11.03	26.23
Other Current Assets	0.12	0.60	0.46
Total Assets	58.08	280.03	633.46

Avanse Financial Services Limited
Annexure III: Key Ratios

Key Ratios	FY14 (A)	FY15 (A)	FY16 (A)
Avg. cost of Borrowings	0.00%	7.96%	10.07%
Yield on Avg. Portfolio	7.45%	10.34%	13.54%
Net Interest Margin (NIM)	7.45%	5.32%	3.80%
Return on Avg. Assets	-Ve	-Ve	0.59%
Return on Avg. Equity	-Ve	-Ve	2.36%
Cost : Income Ratio	175.08%	133.90%	84.67%