

## 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 **Ratings<sup>1</sup>** of '**BWR AA+ (SO)**' [Pronounced BWR Double A Plus (Structured Obligation)] with **Stable Outlook** for the proposed Unsecured Subordinated Non-Convertible Debenture issue up to ₹25 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 Rating that is reviewed and reaffirmed for Avanse Financial Services Limited is as per the table below:

Issue	First rated in	Issue Size (` Cr)		Tenure	Rating History	Rating Reaffirmed
		Previous	Present			
<b>Secured NCD</b>	Jun 2015	50	75* (reduced from 100)	Long Term	BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable
<b>Secured NCD</b>	Sep 2015	50			BWR AA+ (SO) Outlook: Stable	BWR AA+ (SO) Outlook: Stable

\* Utilized amount as on date is ` 70 Cr

BWR has principally relied upon the draft term sheet of the issue, audited financial results of the Company up to FY15, Unaudited financial for 9MFY16, financial projections, 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.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

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## **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. On February 04, 2014 the name of the company was changed from AFSPL to Avanse Financial Services Limited. As of December 31, 2015, DHFL had 48.39% stake in AFSL followed by Wadhawan Global Capital Private Limited (37.82%) and International Finance Corporation (IFC) (12.97%).

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

## **Business operations**

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 December 31, 2015 stood at `482 Crores and loan portfolio O/S at `427 Crores.

## **Proposed NCD Structure**

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

1. It is an unsecured redeemable Subordinated 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 10 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

## **Business Volumes**

During FY15, the company disbursed loans to the extent of ` 203.0 Crores, and the outstanding loan portfolio as of March 31, 2015 was ` 239.4 Crores compared to ` 49.9 Crores as of March 31, 2014 which further increased to ` 426.6 Crores as December 31, 2015.

The Company, besides Education loans, also has Education Infrastructure loans for educational institutions for infrastructure development, purchase of equipment and financing for working capital gap.

### **Asset Quality**

As of December 31, 2015, the Gross NPA of the Company was 0.01%. 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 will be done as per the guidelines of RBI.

### **Capital adequacy**

AFSL's Tangible Net Worth increased from `56.3 Crores in FY14 to `93.6 Crores as of December 31, 2015, on account of infusion of capital of `40.8 Crores by Promoters in FY15 and after considering the accumulated losses. AFSL's capital adequacy in the form of CRAR stood at 21.61% as of December 31, 2015 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 December 31, 2015, Company's borrowings aggregated `331.75 Crores and are by way of Bank Borrowings: `247.19 Crores, Secured NCD: `60 Crores and Commercial Papers: `24.57 Crores. For short to medium term, the Company has a comfortable liquidity position.

### **Earnings Quality**

For FY15, Total Interest Income for the Company stood at `14.94 Crores compared to `1.89 Crores in FY14, while Net Interest Income increased from `1.89 Crores in FY14 to `7.69 Crores in FY15. Net Interest Margin was at 7.45% for FY14, however, it declined to 5.32% in FY15 as the Company started borrowing only in FY15. The Company has incurred Net Loss of `4.96 Crores in FY15 due to high operating expenses, which is also reflected in the high cost to income ratio.

In 9MFY16, the Company reported Net Interest Income of `11.78 Crores with Profit before tax of `1.53 Crores.

***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, 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**

<b>P &amp; L Summary (₹ Cr)</b>	<b>FY13 (A)</b>	<b>FY14 (A)</b>	<b>FY15 (A)</b>
Interest Income	0.00	1.89	14.94
Interest Expense	0.00	0.00	7.25
<b>Net Interest Income</b>	<b>0.00</b>	<b>1.89</b>	<b>7.69</b>
Income from Loan Related Services	0.01	0.89	3.30
Other Financial Charges	0.00	0.03	0.14
Other Income	0.47	3.19	1.54
<b>Total Operating Income</b>	<b>0.48</b>	<b>5.94</b>	<b>12.39</b>
Operating Expense	1.13	10.40	16.59
Provision for contingencies	<b>0.00</b>	0.12	0.47
<b>PBDTA</b>	<b>(0.65)</b>	<b>(4.58)</b>	<b>(4.67)</b>
Depreciation	<b>0.01</b>	0.12	0.29
<b>PBT</b>	<b>(0.66)</b>	<b>(4.70)</b>	<b>(4.96)</b>
Taxes	0.00	0.00	0.00
<b>PAT</b>	<b>(0.66)</b>	<b>(4.70)</b>	<b>(4.96)</b>

**Avanse Financial Services Limited**  
**Annexure II: Balance Sheet Summary**

<b>Liabilities ( ` Cr)</b>	<b>FY13 (A)</b>	<b>FY14 (A)</b>	<b>FY15 (A)</b>
<b>Equity and Liabilities</b>	<b>10.77</b>	<b>56.37</b>	<b>92.17</b>
Share capital	3.45	16.35	25.21
Reserves and Surplus	7.32	40.02	66.96
<b>Non-current liabilities</b>	<b>0.00</b>	<b>0.44</b>	<b>151.44</b>
Long-Term Borrowings	0.00	0.00	149.38
Long-Term Provisions	0.00	0.40	1.15
Other Long Term Liabilities	0.00	0.04	0.91
<b>Current liabilities</b>	<b>0.15</b>	<b>1.27</b>	<b>36.42</b>
Short-Term Borrowings	0.00	0.00	24.60
Current Portion of Long Term Debt	0.00	0.00	8.13
Trade Payables	0.14	0.22	0.10
Other Current Liabilities	0.01	1.05	3.53
Short-Term Provisions	0.00	0.00	0.06
<b>Total Liabilities</b>	<b>10.92</b>	<b>58.08</b>	<b>280.03</b>
<b>Assets ( ` Cr)</b>			
<b>Non-current assets</b>	<b>0.92</b>	<b>47.39</b>	<b>231.00</b>
Net Fixed assets	0.17	0.48	0.51
Net Intangible assets	0.01	0.08	0.15
Long Term Loans and Advances	0.74	46.83	230.34
<b>Current assets</b>	<b>10.00</b>	<b>10.69</b>	<b>49.03</b>
Current Investments	1.00	0.00	0.00
Cash and Cash Equivalents	8.82	7.09	37.40
Short-Term Loans and Advances	0.17	3.48	11.03
Other Current Assets	0.01	0.12	0.60
<b>Total Assets</b>	<b>10.92</b>	<b>58.08</b>	<b>280.03</b>

**Avanse Financial Services Limited**  
**Annexure III: Key Ratios**

<b>Ratios</b>	<b>FY13 (A)</b>	<b>FY14 (A)</b>	<b>FY15 (A)</b>
Avg. cost of Borrowings	0.00%	0.00%	7.96%
Net Interest Margin (NIM)	0.00%	7.45%	5.32%
Yield on Avg. Portfolio	0.00%	7.45%	10.34%
RoA	-6.05%	-13.64%	-2.94%
RoE	-6.13%	-14.00%	-6.68%
Cost : Income	235.42%	175.08%	133.90%