

Rating Report

Brickwork Ratings assigns/ revises the rating from ‘BWR AA-’ to ‘BWR AA’ with Stable Outlook for the Bank Loan facilities aggregating ₹550 Crores (enhanced from ₹200 Crores) and the Issuer Rating of Au Financiers (India) Limited

Brickwork Ratings (BWR) has assigned/revised the Rating for the Bank Loan Facilities of Au Financiers (India) Limited (‘AUFIL’ or ‘the Company’) as detailed in table below. It has also revised the Issuer Rating for the Company from ‘BWR AA-’ to ‘BWR AA’ with Stable Outlook

Facility	Limits (₹ Cr)		Tenure	Rating History (May 2016)	Rating
	Previous	Present			
Fund Based Term Loan	200	550	Long Term	BWR AA - BWR Double A Minus Outlook: Stable	BWR AA BWR Double A (Revised) Outlook: Stable
Total	200	550	INR Five Hundred and Fifty Crores Only		

Note: The above facility is a partial amount of the total Bank Loan exposure of the Company

BWR has principally relied upon the audited financial results of the Company up to FY16, unaudited financials for Q1FY17, projections, publicly available information and information/clarifications provided by the Company’s management.

The rating revision has factored, *inter alia*, the improvement of capital structure following the divestment of AUFIL’s stake in the Housing Finance Subsidiary, experienced & professional management, presence of strategic investors providing financial strength & flexibility, growing business profile, diversification in terms of geography and products offerings, robust asset quality and improving operating performance. The rating is however, constrained by moderately seasoned loan portfolio and the competitive landscape for NBFCs, in general.

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 financing for both new & used commercial vehicles and providing loans to MSMEs/ SMEs. 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 stipulated for the SFBs. As a part of this transition, the Company has diluted its stake in the Housing Finance Subsidiary to 9.90% and received transaction proceeds of ₹ 828 Crores. Foreign shareholding in the Company has also come down from 64.92% to 48.81% after sale of the stake to Domestic Investors and exercise of share warrants by the Promoter Mr. Sanjay Agarwal. Mr. Agarwal now, with other promoters & promoter group, holds around 31.30% in the Company, followed by non-promoter holdings of Redwood Investment Limited - managed by Warburg Pincus of 21.79%, International Finance Corporation of 11.04% and other Institutional Investors.

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. 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 and Mr. Manoj Tibrewal, Chief Operating Officer.

Business operations and volume

AUFIL is operating in the asset finance space, primarily offering financing for both new & used commercial vehicles and loans to MSMEs/ SMEs. As of March 31, 2016, the Company is operating in 10 states through its expanding network of around 291 branches with Asset under Management (AUM) concentration of ~58% coming from Rajasthan followed by Gujarat (~13%) and Maharashtra (~12%).

The Company's AUM has increased from ₹ 5,568 Crores as of March 31, 2015 to ₹ 8,221 Crores as of March 31, 2016, a y-o-y growth of ~ 48%. In terms of products, around 49% is contributed by MSME/SME segment.

Asset Quality

As of March 31, 2016, the Gross NPAs as a percentage of AUM stood at 0.90% (0.99% as of FY15 end) due to improvement in slippages/recoveries during FY16. Net NPA stood at 0.57% (0.81% as of FY15 end). Provision Coverage ratio stood at 36.88%. The NPA recognition norm has changed from 180 dpd+ till FY15 to 150 dpd+ in FY16.

Capital adequacy

AUFIL's Tangible Net Worth increased from ₹ 796 Crores as of March 31, 2015 to ₹ 991 Crores as of March 31, 2016, mainly on account of retention of profits for the period. Post the dilution of stake in the Housing Finance company, TNW increased to around ₹ 1576 Crores as of June 30, 2016 resulting from the proceeds received. Its capital adequacy in the form of CRAR stood at 23.97% as of June 30, 2016 (17.10% as of March 31, 2016). It has continuously maintained CRAR well above the RBI's minimum stipulated requirement of 15%. Company's Tier I CRAR stood at 22.33%, a high Tier I CRAR will enable the Company to further leverage its balance sheet for future growth.

Liquidity

As of March 31, 2016, Company's borrowings aggregated ₹ 4,787 Crores, and comprise of Bank borrowings: ₹ 1,832 Crores, NCD: ₹ 2,075 Crores, Subordinated Debt: ₹ 355 Crores, & Commercial Papers: ₹ 525 Crores. It also undertook sale of assets through Securitization: ₹ 2,600 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 Income from Operations for the Company stood at ₹ 1010.46 Crores for FY16 compared to ₹ 703.92 Crores for FY15, a y-o-y growth of ~44%, while Net Income from Operations (Total Income from Operations net of Finance Cost) increased from ₹ 421.95 Crores to ₹ 615.21 Crores, a y-o-y growth of ~46%. Net Interest Margin was stable at around 9%. PAT improved from ₹ 140.23 Crores for FY15 to ₹ 211.62 Crores for FY16. Return on Asset was 3.10% for FY16 (2.70% for FY15).

On a provisional basis, Total Income for Q1FY17 was around ₹ 1,004 Crores with PAT of ₹ 591 Crores. It also includes the net proceeds from sale of Investment in Subsidiaries.

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 rating sensitivities. Transition of the company from an NBFC to a Small Finance Bank, in compliance with all the regulations, also needs to be watched.

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Au Financiers (India) Limited

Annexure I: (Standalone) Profit & Loss Summary

P & L Summary (₹ Cr)	FY14 (A)	FY15 (A)	FY16 (A)
Total Operating Income	610.68	703.92	1010.46
Total Finance Cost	288.94	281.97	395.25
Net Income from Operations	321.74	421.95	615.21
Other Income	7.98	2.39	5.02
Total Income	329.72	424.34	620.23
Employee Benefit Expenses	69.68	94.52	157.73
Provision & Write offs	76.52	60.59	39.84
Other Expenses	41.83	54.34	91.49
PBDTA	141.69	214.89	331.17
Depreciation	3.30	6.52	8.52
Prior period item	0.00	0.00	0.00
PBT	138.39	208.37	322.65
Taxes	46.00	68.14	111.03
PAT	92.39	140.23	211.62

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Annexure II: (Standalone) Balance Sheet Summary

Equity & Liabilities (₹ Cr)	FY14 (A)	FY15 (A)	FY16 (A)
Shareholders' Fund	641.27	810.76	1009.43
Share Capital	42.96	44.08	44.08
Reserves & Surplus	598.31	766.68	965.35
Non-Current Liabilities	1314.63	1661.36	2912.02
Long Term Borrowings	1273.46	1579.57	2810.85
Other Long Term Liabilities	14.98	43.10	56.73
Long Term Provisions	26.19	38.69	44.44
Current Liabilities	1057.03	1563.22	2372.76
Short Term Borrowings	468.47	972.64	1006.58
CPLTD	388.12	326.11	965.19
Other Current Liabilities	188.54	247.10	379.29
Short Term Provisions	11.90	17.37	21.70
Total	3012.93	4035.34	6294.21
Assets (₹ Cr)			
Non-Current Assets	1625.47	2411.55	3898.05
Tangible Assets (Net)	16.05	17.23	22.46
Intangible Assets (Net)	0.81	1.29	1.74
Capital WIP	0.00	0.47	0.39
Non-current Investments	87.36	112.65	59.34
Deferred Tax Assets (Net)	9.09	14.56	18.36
Receivable under Financing activity	1491.41	2248.16	3780.45
Long Term Loans and Advances	16.22	11.75	8.85
Other Non-Current Assets	4.53	5.44	6.46
Current Assets	1387.46	1623.79	2396.16
Current Investments	26.20	27.19	172.23
Cash and Bank balances	203.36	202.92	123.43
Receivable under Financing activity	1096.70	1350.20	2032.11
Short Term Loans and Advances	33.07	13.87	21.01
Other Current Assets	28.13	29.61	47.38
Total	3012.93	4035.34	6294.21

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Annexure III: (Standalone) Key Ratios

Ratios	FY14 (A)	FY15 (A)	FY16 (A)
Yield on earning assets (%)	17.06%	17.60%	17.24%
Cost of funds (%)	11.15%	10.55%	10.03%
Net interest spread (%)	5.91%	7.05%	7.21%
Net interest margin (%)	8.1%	9.1%	9.0%
Cost to Income Ratio	35.20%	34.27%	40.77%
Return on Equity (%)	19.98%	21.94%	27.40%
Return on assets (%)	2.19%	2.70%	3.10%