



RATING RATIONALE

25 Sept 2020

Avanse Financial Services Limited

Brickwork Ratings reaffirms ‘BWR A+’/Stable for the Non-Convertible Debentures (NCDs) and withdraws the rating for the unutilised NCDs of Avanse Financial Services Limited

Particulars

Instrument**	Previous Amount (Rs. Crs.)	Present Amount (Rs. Crs.)	Tenure	Previous Rating* (Sep 2019)	Present Rating* (Sep 2020)
NCDs	525.00	525.00	Long Term	BWR A+ / Stable	BWR A+ / Stable
NCDs (Subordinated)	75.00	75.00	Long Term	BWR A+ / Stable	BWR A+ / Stable
NCDs	50.00	-	Long Term	BWR A+ / Stable	Withdrawn
Total	650.00	600.00	Rs Six Hundred Crores Only/-		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

** Details of NCD are provided in Annexure- II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has reaffirmed ‘BWR A+’/Stable for NCDs worth Rs.600 Crs of Avanse Financial Services Limited (AFSL or the company) and withdrawn the ratings on the company’s existing NCDs of Rs 50 Crs, as tabulated above.

BWR has withdrawn the rating of Rs. 50 Crs NCD based on the company’s request for the withdrawal of the rating and confirmation about the non-utilisation of the said NCD from the initial rating to the instruments until now and is as per BWR’s withdrawal policy.

The ratings factor in the company’s experienced board and management team, comfortable capitalisation and adequate asset quality. The ratings are, however, constrained by the limited seasoning of the loan portfolio, geographical concentration, small scale of operations and challenges being faced by NBFCs in the current environment.

The Stable outlook indicates a low likelihood of a rating change over the medium term. BWR believes AFSL’s business risk profile would remain unchanged over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Healthy capitalisation:** AFSL is well-capitalised, with a total capital-to-risk weighted assets ratio (CRAR) of 33.84% as of 30 June 2020, which is above the RBI's minimum stipulated requirement of 15%. The fresh capital infusion in FY20 by promoters was Rs. 300 Crs, which has strengthened the company's capital position to cover for any asset side risks and also augment growth. The capital infusion also led the networth to increase to Rs. 909.05 Crs and gearing levels to reduce to 2.67x as on 30 June 2020 from 4.12x as on 31 March 2019. The networth coverage of the net non-performing assets (NPAs) was comfortable, at around 32 times, as on 31 March 2020.
- **Comfortable business risk profile:** The company started operations in 2013 and witnessed healthy growth in the past 5 years. The asset under management (AUM) as on 31 March 2020 stood at Rs 2815 Crs and was at Rs. 2681.55 Crs as on 30 June 2020. AFSL mainly lends towards educational loans (56.09%), followed by education institution loans (29.47%) and education loan digital (6.02%). The company disbursed Rs.1062 Crs in FY20 and Rs. 233 Crs in the first five months of FY21.

Sound credit underwriting processes have helped the company in maintaining a comfortable asset quality. AFSL's gross non-performing assets (GNPAs) and net non-performing assets (NNPAs) stood at 1.88% and 1.01%, respectively, as on 30 June 2020 (1.76% and 0.96%, respectively, as on 31 March 2020). Though the company has seen increase in NPA during FY20 the company has bank guarantee carved out as part of shareholding change transaction which can be adjusted against the NPAs thereby reducing the risk to that extent. The company's ability to maintain asset quality in the near term will remain a key rating monitorable.

- **Adequate resources profile:** AFSL has an adequate resource profile, with the funding mix comprising banks/FIs (59%), NCDs (38%) and subordinated debt (3%). Between April 2020 to August 2020, the company raised Rs. 250 Crs from NCDs and Rs. 50 Crs from bank loans. The average cost of borrowings remains at the similar levels during FY20 as compared to FY19. During FY20, the company raised funds of Rs.845 Crs and during FY21, until August, the company has raised Rs. 300 Crs from NCDs and bank loans.

Strong promoter group and management team: Olive Vine Investment Limited, a Warburg Pincus group entity, acquired an 80% stake in the company during FY20. The



remaining 20% stake is held by International Finance Corporation (IFC). Both the promoter groups demonstrated capital infusion capability during FY20. AFSL has an experienced board and management. The company has a strong management team led by Mr. Amit Gaiinda (CEO), who has over two decades of experience in the banking and financial services industry. He is supported by an experienced management team with a long track record in the company.

Credit Risks:

- **Average earning profile:** AFSL's earning is mainly driven by student loans products catering to foreign study loans, which comprised ~56% of the company's total AUM as on 31 March 2020. The total income and profit after tax were Rs.434 Crs and Rs.22 Crs, respectively, for FY20. The net interest margin was 5.59% in FY20; however, it declined to 4.60% in Q1FY21 due to COVID provisioning. The return on assets stood low at 1.40% for FY20 after excluding one-time transaction costs of Rs. 28.6 Crs due to a shareholding change. The same marginally reduced to 1.30% (annualised) in Q1FY21. The provisioning costs were low at 0.72% in FY20. However any deterioration in asset quality due to the impact of COVID-19 on the economy could result in a higher provisioning cost in FY21. The company's overall earning profile is expected to remain under pressure over the medium term.
- **Challenges due to COVID-19:** Due to the COVID-19 impact, nationwide lockdown and loan moratorium announced by the RBI, the collection efficiency for AFSL has dipped. Additionally, disbursements have slowed down during FY21 because of the postponement of the academic year beginnings of schools and colleges globally. Around 50.10% of its clients availed the moratorium on the installment repayment during April 2020, which then reduced to 23.35% in August 2020. Collections in April 2020 were at ~50% and improved to 77% in August 2020. While the company has not availed a moratorium from any of its lenders, the impact of the economic slowdown on the borrower segments of AFSL and resultant impact on the overall credit profile of AFSL will be key rating monitorable over the near to medium term.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has taken a standalone approach on Avanse Financial Services Limited for arriving at the ratings. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

KEY COVENANTS OF THE CREDIT ENHANCED INSTRUMENT RATED:NA



RATING SENSITIVITIES

Positive: A significant improvement in the financial risk profile and market share of the company, including a substantial increase in income and profitability while maintaining asset quality, will be a rating positive.

Negative: A significant deterioration in business volumes, asset quality or earning profile will be a key rating negative.

Coronavirus disease (COVID-19), declared a pandemic by the World Health Organisation (WHO), has become a full-blown crisis globally, including in India. As a containment measure, the Indian Government had announced a 21-day nationwide lockdown on 24 March 2020, which was subsequently extended until 31 May 2020. As per BWR, financial institutions, mainly those lending to the retail low-income borrower segments could be the most impacted. The 6-month moratorium announced by the Reserve Bank of India on interest and principal on bank debt has provided some cushion to the lending community to realign its collection machinery and operations during this period. However, lenders' ability to ensure credit discipline among borrowers and to collect accumulated interest and principal dues on a timely basis will be a key monitorable. BWR is actively engaging with its clients on a continuous basis and taking updates on the impact on its operations and liquidity situation. BWR will take appropriate rating actions as and when it deems necessary and will publish the same.

LIQUIDITY INDICATORS: ADEQUATE

As on 31 August 2020, the company had liquidity of Rs. 705 Crs, i.e., fixed deposits of Rs 545 Crs, investments in mutual funds of Rs. 135 Crs, and cash and bank balance of Rs. 25 Crs. Against this, it has a debt obligation of Rs.207.99 Crs between 1 October 2020 to 31 March 2021. The company also had undisbursed sanctions of Rs. 25 Crs as on 31 August 2020. Liquidity is also supported by healthy loan collections by the company.

COMPANY PROFILE

Avanse Financial Services Limited (AFSL) was incorporated in August 1992 as Abhivruddhi Holdings Private Limited (AHPL). Dewan Housing Finance Corporation Limited (DHFL), along with its promoter group acquired the company in July 2012 and changed the company's name to Avanse Financial Services Private Limited (AFSPL). After this, the International Finance Corporation (IFC) acquired a 20% stake in the company during July 2013. Then, the company's name was changed to Avanse Financial Services Limited in February 2014. During July 2019, DHFL and the promoter group sold its entire (80%) stake to a Warburg Pincus Group affiliate entity, Olive Vine Investments Limited.

AFSL is a systemically important non-deposit taking non-banking financial company registered with the RBI and is engaged in the business of providing education loans for the purpose of higher studies, both in India and abroad, and also provides education infrastructure loans. At present, the company has 17 branches across 13 states with an employee count of 530.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY19	FY20	Q1FY21
Result Type		Audited	Audited	UnAudited
Total Income	Rs in Crs	420.32	433.78	108.86
Profit After Tax	Rs in Crs	27.27	21.53	8.07
Networth	Rs in Crs	577.78	899.94	909.50
Debt: Networth	Times	4.12	2.74	2.67
CRAR	%	21.53	32.12	33.84
GNPA	%	0.17	1.76	1.88
ROA	%	0.90	0.69	1.30

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY): NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument s	Amt Rs Crs	Current Rating (Sep 2020)	Rating History							
			FY19						FY18	FY17
			25.9.19	19.7.19	9.3.19	6.2.19	21.1.19	17.12.18	3.07.17 6.12.17 27.12.17	29.7.16
NCDs	0	Withdrawn	BWR A+/Stable	BWR A+ Credit Watch with Developing Implications	Provisional BWR AA- (SO) (Structured Obligation) Credit Watch with Negative Implications	Provisional BWR AA (SO) (Structured Obligation) Credit Watch with Negative Implications	Provisional BWR AA+ (SO) (Structured Obligation) Negative	NA	NA	NA
Secured NCDs	525	BWR A+/ Stable (Reaffirmed)	BWR A+/Stable	BWR A+ Credit Watch with Developing Implications	BWR AA- (SO) (Structured Obligation) Credit Watch with Negative Implications	BWR AA (SO) (Structured Obligation) Credit Watch with Negative Implications	BWR AA+ (SO) (Structured Obligation) Negative	BWR AA+ (SO) (Structured Obligation) Stable	BWR AA+ (SO) (Structured Obligation) Stable	BWR AA+ (SO) Structured Obligation) Stable
Subordinated NCDs	75	BWR A+/ Stable (Reaffirmed)	BWR A+/Stable	BWR A+ Credit Watch with	BWR AA- (SO) (Structured Obligation)	BWR AA (SO) (Structured)	BWR AA+ (SO) (Structured)	BWR AA+ (SO) (Structured)	BWR AA+ (SO) (Structure	BWR AA+ (SO)

				Developing Implications	Credit Watch with Negative Implications	Obligation) Credit Watch with Negative Implications	Obligation) Negative	Obligation) Stable	d Obligation) Stable	(Structure d Obligation) Stable
Total	600	Rupees Six Hundred Crores Only/-								

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Banks & Financial Institutions](#)

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Avanse Financial Services Limited

ANNEXURE I

Details of Bank Loan Facilities rated by BWR:NA

ANNEXURE II

INSTRUMENT (NCDs) DETAILS:

Instrument	Issue Date	Amount in Crs.	Coupon Rate	Maturity Date	ISIN Particulars
NCDs	31-Jul-15	25.00	10.10%	31-Jul-25	INE087P07022
NCDs	07-Aug-15	10.00	10.05%	08-Aug-22	INE087P07030
NCDs	07-Aug-15	15.00	10.10%	07-Aug-25	INE087P07048
NCDs	26-Oct-15	10.00	9.55%	26-Oct-20	INE087P07055
NCDs	26-Feb-16	10.00	9.65%	26-Feb-23	INE087P07063
NCDs	03-Nov-17	25.00	8.65%	02-Nov-20	INE087P07089
NCDs (Subordinated)	16-Mar-16	25.00	10.50%	16-Mar-24	INE087P08012
NCDs (Subordinated)	30-Jun-17	25.00	9.50%	30-Jun-27	INE087P08020
NCDs (Subordinated)	27-Dec-17	25.00	9.35%	27-Dec-17	INE087P08038

Total Rupee One Hundred and Seventy Crores only/-.

ANNEXURE III

List of entities consolidated: NA



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