

March 12, 2019

The Manager
Listing Department
BSE Limited,
P.J. Towers, Dalal Street,
Mumbai- 400 001

Dear Sir,

Sub: Intimation of revision in Credit Rating

In terms of the requirements of Regulation 51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please note following revision in Credit Rating of the Company with effect from March 09, 2019:

(1) Brickwork Rating.

#	Earlier rating	Revised Rating
1	BWR AA (SO) [Pronounced as BWR Double A (Structured Obligation)] Credit Watch with Negative Implications	BWR AA- (SO) [Pronounced as BWR Double A Minus (Structured Obligation)] Credit Watch with Negative Implications 'Downgraded'

The copy of the rating rationale is **enclosed** herewith.

Request you to kindly take the same in your records.

Thanking You,

Yours Truly,

For Avanse Financial Services Limited


Rakesh Dhanuka
Company Secretary



Cc: Mr. R.K Kulkarni
Catalyst Trusteeship Limited
(Formerly known as GDA Trusteeship Limited)
GDA House, Plot No. 85, Bhusari Colony (Right)
Paud Road, Pune - 411038

Rating Rationale

Avanse Financial Services Limited

9 March 2019

Brickwork Ratings revises the rating for the various existing debt instruments of Avanse Financial Services Limited (“AFSL” or “Company”) to BWR AA- (SO) and continues them on Credit Watch with Negative Implications.

Particulars

Instruments#	Rated Amount (Rs in Crs)	Tenure	Rating*	
			Previous	Present
Fund Based				
Proposed unsecured subordinated NCDs	50.00	Long Term	Provisional BWR AA (SO) [Pronounced as BWR Double A (Structured Obligation)] Credit Watch with Negative Implications	Provisional BWR AA- (SO) [Pronounced as BWR Double A Minus (Structured Obligation)] Credit Watch with Negative Implications 'Downgraded'
Secured NCDs	525.00	Long Term	BWR AA (SO) [Pronounced as BWR Double A (Structured Obligation)] Credit Watch with Negative Implications	BWR AA- (SO) [Pronounced as BWR Double A Minus (Structured Obligation)] Credit Watch with Negative Implications 'Downgraded'
Unsecured Subordinated NCDs	75.00			
Total	650.00	INR Six Hundred Fifty Crores Only		

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

#ISIN-wise details of NCDs are available in Annexure I

Note - The final rating will be contingent upon receipt of the executed transaction documents confirming to the information already received by BWR.

Rationale/Description of Key Rating Drivers/Rating sensitivities:

The Structured Obligation (SO) rating factors the credit enhancement in the form of Letter of Comfort issued by Dewan Housing Finance Corporation Ltd (DHFL) in favour of the investors of the NCDs issued by AFSL.

The rating downgrade factors the downgrade of rating of DHFL, which was on account of degrowth in business which was on account of inability to raise funds through traditional bank lines and debt market instruments and limited progress in raising funds through securitisation of its retail loans and sell-down of its developer loans. DHFL's financial flexibility has moderated and it has curtailed disbursements to conserve liquidity which has impacted the growth in business.

The ratings continues to remain on 'Credit Watch with Negative Implications' and BWR will monitor the progress of DHFL on building up of liquidity, selling / exiting riskier construction finance loans, inducting a strategic investor and restarting fresh disbursements to generate business. No/ slow progress by DHFL on the above measures may result in further revision of ratings.

The rating continues to reflect comfortable asset quality, adequate capitalisation and expectation of support from the WGC group (collectively referring to DHFL, Wadhawan Global Capital Private Ltd and its promoters) for servicing of its financial obligations. The WGC group's management is planning to divest stake in AFSL, however till the transaction is complete, the group is expected to support AFSL and the rating of AFSL will remain linked to DHFL.

Going forward, the support from the WGC Group, the ability of the company to maintain asset quality, sustain profitability and ensure a prudent capital structure will be the key rating sensitivities.

Key Rating Drivers

Credit Strengths

Experienced Management and Strong Parentage: AFSL has a well experienced board and senior management team. Mr. Amit Gaiinda (CEO) has over two decades of experience in banking and financial services industry. Mr. Kapil Wadhawan, Chairman & Managing Director of DHFL, is also the Non-Executive Chairman of AFSL. Currently DHFL holds 30.63% and Wadhawan Global Capital Private Limited holds 49.04% stake in AFSL as on Dec 31, 2018. AFSL benefits from the group's strong management team, operational and financial support. The group management centre of the WGC group is actively involved in AFSL's strategic decision making.

Comfortable Asset Quality: Adequate credit underwriting processes have helped the company in maintaining a comfortable asset quality. Gross NPA and Net NPA stood at 0.11% and 0.08% respectively as on Sep 30, 2018.

Adequate Capitalisation: Tangible net worth and overall Capital Adequacy ratio has improved from Rs 139.87 Crs and 16.50% as of March 31, 2017 to Rs 484.01 Crs and 25.71% as of March 31, 2018. During FY18, existing shareholders [viz DHFL, WGC and International Finance Corporation Ltd (IFC)] have infused equity of ~Rs 334 Crs in the company by way of rights issue with premium. Total Debt/ TNW has improved from 6.40 times as of March 31, 2017 to 3.82 times as of March 31, 2018. Further, as of Sep 30, 2018 the Total Debt/ TNW stood at 4.55 times.

Credit Challenges

Limited Seasoning of Loan Portfolio: The company started operations in 2013. However, majority of loan portfolio has been created in last two years. AUM has increased from Rs 982 Crs as of March 31, 2017 to Rs 3134 Crs as of Sep 30, 2018. Further, more than 80% of the total portfolio is for a tenor of ~ 10 years. Overall asset quality is yet to be tested through different business cycles. During FY18, the company has entered into 2 new business segments viz. MSME loans and Commercial Finance. The track record in these assets segments remains limited. As of Sep 30, 2018, 54% of loan portfolio constituted of Education Loans, 26% constituted of Education Infrastructure Lending, 11% constituted Lending to Financial Institutions, 9% was SME loans and rest being other loans.

Increased Interest Costs and Tightened Liquidity: The recent tightening in liquidity could result in slowdown in disbursements and growth in loan portfolio. The interest costs for NBFCs have increased which might lower the NIMs going forward.

Liquidity Position: The company has ~Rs 137 Crs of cash & bank balance and ~Rs 164 Crs of unutilised credit lines (term loans) as of Feb 28, 2019. Company has been regular in meeting its debt obligations and has repaid liabilities of ~ Rs 500 Crs post september 2018. The company does not have any outstanding commercial paper as on Jan 31, 2019.

Analytical Approach

For arriving at its ratings, BWR has evaluated the risk profile of AFSL on a standalone basis and factored the group support in terms of operational, financial and management linkages with WGC group. AFSL does not have any Subsidiary/Joint Ventures/Associate Company as of March 31, 2018. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). The WGC group's management is planning to divest stake in AFSL, however till the transaction is complete, the group is expected to support AFSL and the rating of AFSL will remain linked to DHFL.

About the Company

Avanse Financial Services Limited (AFSL) was initially 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 changed the company's name to Avanse Financial Services Private Limited (AFSPL). AFSL is a Systemically Important Non-Deposit taking Non-Banking Financial Company registered with 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. During FY18, company has entered into 2 new business segments viz. MSME loans and Commercial Finance. At present the company has 11 branches and 5 sales representative offices. It accesses the educational markets of the country through 184 DHFL Centres. The Company is also registered with Insurance Regulatory and Development Authority of India (IRDAI) as Corporate Agent (Composite) and acts as a Corporate Agent of DHFL Pramerica Life Insurance Ltd and DHFL General Insurance Ltd.

Financial Performance

Total income (net of interest expenses) increased from Rs 47.13 Crs in FY17 to Rs 95.52 Crs in FY18, an increase of ~102% over previous year. Net profit increased from Rs 5.60 Crs in FY17 to Rs 10.25 Crs in FY18, an increase of ~83%. The increase in income and profit was due to increase in portfolio from Rs 982 Crs as of March 31, 2017 to Rs 2187 Crs as of March 31, 2018. Tangible net worth and overall Capital Adequacy ratio has improved from Rs 139.87 Crs and 16.50% as of March 31, 2017 to Rs 484.01 Crs and 25.71% as of March 31, 2018. Gross NPA and Net NPA were 0.09% and 0.07% as of March 31, 2018. AFSL has reported total income (net of interest expenses) of Rs 85.74 Crs and net profit of Rs 16.42 Crs during H1FY19 (unaudited).

Key Financials :

Key Financial Indicators	Unit	FY17 Audited	FY18 Audited
Total Income (net of interest expenses)	Rs in Crs	47.13	95.52
Net Profit	Rs in Crs	5.60	10.25
Tangible Net Worth	Rs in Crs	139.87	484.01
Total Debt / Tangible Net worth	Times	6.40	3.82
Total CRAR	%	16.50	25.71
Gross NPA	%	0.29	0.09
Net NPA	%	0.25	0.07
AUM	Rs in Crs	982.00	2187.00

Rating History :

Sl · No.	Facility	Amt Rs Crs	Current Rating (March 2019)	Rating History					
				FY19			FY18	FY17	FY16
				6.2.19	21.1.19	17.12.18	3.07.17, 6.12.17, 27.12.17	29.7.16	15.10.15, 31.03.16
1	Proposed Subordinated NCDs	50.00	Provisional BWR AA- (SO) Credit Watch with Negative Implications	Provisional BWR AA (SO) Credit Watch with Negative Implications	Provisional BWR AA+ (SO) Outlook: Negative	NA	NA	NA	NA
2	Secured NCDs	525.00	BWR AA- (SO) Credit Watch with Negative Implications	BWR AA (SO) Credit Watch with Negative Implications	BWR AA+ (SO) Outlook: Negative	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)
3	Subordinated NCDs	75.00	BWR AA- (SO) Credit Watch with Negative Implications	BWR AA (SO) Credit Watch with Negative Implications	BWR AA+ (SO) Outlook: Negative	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)	BWR AA+ (SO) (Stable)
	Total	650.00							
1	Term Loans	100.00	NA		NA	NA	NA	NA	NA
	Total	100.00							

Status of non-cooperation with previous CRA : NA

Any Other Comments: NA

Hyperlink/Reference to applicable Criteria

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

Analytical Contacts	Media & Investor Contact
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Annexure I
ISIN details of NCDs

Instruments	ISIN	Issue date	Maturity	Coupon Rate p.a.	Coupon Frequency	Amount Raised (Rs. Crs)	Outstanding as on 31.1.19 (Rs. Crs)
Secured NCDs	INE087P07022	31/Jul/15	31/Jul/25	10.10%	Annually	0.50	0.50
Secured NCDs	INE087P07022	31/Jul/15	31/Jul/25	10.10%	Annually	15.00	15.00
Secured NCDs	INE087P07022	31/Jul/15	31/Jul/25	10.10%	Annually	9.50	9.50
Secured NCDs	INE087P07030	07/Aug/15	08/Aug/22	10.05%	Annually	5.00	5.00
Secured NCDs	INE087P07030	07/Aug/15	08/Aug/22	10.05%	Annually	5.00	5.00
Secured NCDs	INE087P07048	07/Aug/15	07/Aug/25	10.10%	Annually	7.00	7.00
Secured NCDs	INE087P07048	07/Aug/15	07/Aug/25	10.10%	Annually	8.00	8.00
Secured NCDs	INE087P07055	26/Oct/15	26/Oct/20	9.55%	Annually	10.00	10.00
Secured NCDs	INE087P07063	26/Feb/16	26/Feb/23	9.65%	Annually	10.00	10.00
Secured NCDs	INE087P07089	03/Nov/17	02/Nov/20	8.65%	Annually	25.00	25.00
Secured NCDs	INE087P07097	29/Jun/18	27/Sep/19	9.35%	Annually	50.00	50.00
Subordinated NCDs	INE087P08012	16/Mar/16	16/Mar/24	10.50%	Annually	19.00	19.00
Subordinated NCDs	INE087P08012	16/Mar/16	16/Mar/24	10.50%	Annually	6.00	6.00
Subordinated NCDs	INE087P08020	30/Jun/17	30/Jun/27	9.50%	Annually	25.00	25.00
Subordinated	INE087P08038	27/Dec/17	27/Dec/27	9.35%	Annually	25.00	25.00

NCDs							
Total						220.00	220.00

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

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