

February 28, 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 February 27, 2019:

(1) CRISIL Rating.

#	Earlier rating	Revised Rating
1	CRISIL A1+ (Placed on 'Rating Watch with Negative Implications')	CRISIL A1 ('Rating Watch with Negative Implications'; Rating Withdrawn)

Further, please note that since there was no Commercial Paper (CP) outstanding as on February 27, 2019, the company has decided to go for rating withdrawal for CP and accordingly CRISIL has withdrawn its rating.

The copy of the rating rational 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

February 27, 2019 | Mumbai

Avanse Financial Services Limited

Rating downgraded to 'CRISIL A1' ; Continues on 'Watch Negative' and Rating Withdrawn

Rating Action

Rs.500 Crore Commercial Paper Programme	CRISIL A1 (Downgraded from 'CRISIL A1+' and Continues on 'Rating Watch with Negative Implications'; Rating Withdrawn)
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its rating on the commercial paper programme of Avanse Financial Services Limited (Avanse) to '**CRISIL A1**' from 'CRISIL A1+', while continuing the rating on '**Rating Watch with Negative Implications**'. The rating action is linked to a similar rating action on Dewan Housing Finance Corporation Ltd (DHFL), the flagship company of the Dewan group. CRISIL has also simultaneously **withdrawn** its rating on Avanse's facility following a request from the company and confirmation that there is no outstanding commercial paper as on date. The rating withdrawal is in line with CRISIL's policy.

The rating factors in the expected support from DHFL. CRISIL has noted that the Dewan group's management had, during an investor conference call following DHFL's third quarter fiscal 2019 results, said that it is divesting its stake in Avanse. Till the transaction is announced and consummated, CRISIL expects DHFL and the Dewan group to continue to support Avanse. Consequently, the company's rating remain linked to DHFL.

The rating continues to reflect the expectation of steady support from DHFL and the Dewan group (held 79.67% stake in Avanse as on December 31, 2018), and Avanse's adequate capitalisation. These strengths are partially offset by limited track record in the education loan segment and susceptibility to asset quality challenges over the medium term to an unseasoned loan book.

Analytical Approach

For arriving at the rating, CRISIL has analysed the standalone credit risk profile of Avanse and notched up the rating for expected support from DHFL. CRISIL believes DHFL and the Dewan group will provide distress support to Avanse for timely debt repayment till the time it is part of the Dewan group.

Key Rating Drivers & Detailed Description

Strengths:

* Expectation of support from DHFL and the Dewan group

DHFL holds 30.63% stake and the Dewan group (including DHFL) holds 79.67% stake in Avanse. Though the group's management is divesting its stake in Avanse, till the transaction is announced and consummated; DHFL and the group will continue to support Avanse. CRISIL will take appropriate need-based rating action once a transaction is formally announced.

* Adequate capitalisation

Networth and overall capital adequacy ratio (CAR) were Rs 571 crore and 21.31%, respectively, as on December 31, 2018 (Rs 485 crore and 25.7%, respectively, as on March 31, 2018). Gearing was 4.3 times against 3.8 times. During fiscal 2018, equity capital of Rs 335 crore was infused in Avanse: first tranche of Rs 75 crore was infused in June 2017 while the remaining Rs 260 crore was infused in March 2018. For the first nine months of fiscal 2019, capital infusion stood at Rs 65 crore. Despite growing at a healthy pace, overall CAR is expected at around 16% or above while gearing will be around 5.5 times on a steady-state basis, over the medium term.

Weaknesses:

* Susceptibility to asset quality challenges over the medium term

Loan portfolio grew significantly to Rs 3,000 crore as on December 31, 2018, from Rs 2,187 crore as on March 31, 2018, and Rs 982 crore as on March 31, 2017. Therefore, loan book is not adequately seasoned. Risks associated with education loan segment are higher and need close monitoring. Furthermore, Avanse began lending to financial sector entities from the third quarter of fiscal 2018 and built a loan book of Rs 231 crore till March 31, 2018. This comprised of loans to small non-banking financial companies (NBFCs), microfinance institutions, and housing finance companies. Nevertheless, as on December 31, 2018, gross non-performing assets (NPAs) stood at just 0.55% and net NPAs at 0.48%. Given the strong growth in the past two fiscals and long tenure of the loans, ability to successfully manage risks across business cycles is yet to be demonstrated.

* Limited track record

As operations began in January 2013, the company is a relatively small player in the domestic education loan segment, which is dominated by public sector banks. In addition, Avanse has entered into newer asset segments such as loans to financial sector entities (10% of overall loan book) and micro, small and medium enterprises. As diversification started only

in fiscal 2018, track record in all the asset segments remains limited. Therefore, ability to scale-up loan book in newer asset classes will be a key monitorable.

Liquidity

Asset liability maturity (ALM) statement as on December 31, 2018, shows cumulative negative gaps in buckets up to one year. Cash and liquid investments were Rs 109.7 crore and unutilised bank limits Rs 164 crore, as on February 26, 2019. Average monthly collections as per ALM is Rs 45 crore. Against this, aggregate debt and loan repayment were Rs 261.74 crore till July 2019. The company does not have any outstanding commercial paper as on February 26, 2019.

About the Company

Avanse provides education loans to students pursuing higher studies in India and abroad, and to educational institutes in India. Incorporated in August 1992 as Abhivruddhi Holdings Pvt Ltd, the company was acquired by DHFL and its promoter group companies in July 2012. Subsequently, the name was changed to the current one in December 2012. Avanse is registered as a non-deposit-taking NBFC with the Reserve Bank of India. As on March 31, 2018, it had presence in 16 locations in India. Apart from the educational loans that are retail in nature, the company lends to educational institutions such as schools and colleges, which accounted for about 26% of the loan book as on March 31, 2018. To further diversify the loan book, it began lending to financial sector entities from the third quarter of fiscal 2018.

Profit after tax (PAT) was Rs 10.25 crore and total income (net of interest expenses) Rs 94 crore in fiscal 2018, against PAT of Rs 5.6 crore and total income (net of interest expenses) of Rs 46 crore in fiscal 2017. In the nine months ended December 2018, PAT was Rs 20.8 crore and total income (net of interest expense) Rs 140 crore, against Rs 8.6 crore and Rs 63 crore, respectively, in the corresponding period of the previous fiscal. Cost to income ratio decreased materially to 74% during the first-half of fiscal 2019 from 84% during fiscal 2017.

Key Financial Indicators

As on / for the period ended March 31 / December 31	Unit	Dec 31, 2018	March 31, 2018	March 31, 2017
Reported total assets	Rs crore	3019	2390	1059
Total income	Rs crore	311	215	112
Profit after tax	Rs crore	20.8	10.25	5.6
Gross NPA	%	0.55	0.09	0.29
Overall capital adequacy ratio	%	21.31	25.7	16.5
Return on assets	%	1.0	0.6	0.7

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Commercial paper	NA	NA	7-365 days	500	Withdrawn

Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	500.00	Withdrawn	02-02-19	CRISIL A1+/Watch Negative	06-11-18	CRISIL A1+	06-11-17	CRISIL A1+	06-06-16	CRISIL A1+	CRISIL A1+
						25-04-18	CRISIL A1+	23-06-17	CRISIL A1+			

All amounts are in Rs.Cr.

Links to related criteria

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for rating short term debt](#)

[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)

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