February 07, 2019

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

Dear Sir,

Sub : Intimation of revision in Credit Ratings

In terms of the requirements of Regulation 51 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please note following revisions in Credit Ratings of the Company:

(1) Brickwork Rating w.e.f. February 06, 2019

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

(2) CARE Ratings w.e.f February 06, 2019

#	Instruments	Amount (in Crs.)	Earlier Rating	Revised Rating
1	Sub Debt	75	CARE AA (SO); Stable [Double A (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications	CARE AA- (SO) [Double A Minus (Structured Obligation)] (Credit watch with developing implications)
2	Non-Convertible Debentures*	445	CARE AA+ (SO); Stable [Double A Plus (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications	CARE AA (SO) [Double A (Structured Obligation)] (Credit watch with developing implications)
		655	Provisional CARE AA+ (SO); Stable [Provisional Double A Plus (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications	Provisional CARE AA (SO) [Provisional Double A (Structured Obligation)] (Credit watch with developing implications)

Avanse Financial Services Limited

Avanse Financial Services Ltd.
Registered & Corporate Office:
DHFL House, 1st Floor, 19 Sahar Road,
Off Western Express Highway,
Vile Parle (East), Mumbai - 400 099

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www.avanse.com

4	Commercial Paper	500	CARE A1+ [A One Plus]	CARE A1+ [A One Plus] (Credit watch with developing implications)
5	Long term bank facilities*	1945	CARE AA+ (SO); Stable [Double A Plus (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications	CARE AA (SO) [Double A (Structured Obligation)] (Credit watch with developing implications)
		255	Provisional CARE AA+ (SO); Stable [Provisional Double A Plus (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications	Provisional CARE AA (SO) [Provisional Double A (Structured Obligation)] (Credit watch with developing implications)

(3) CRISIL w.e.f. February 02, 2019.

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

The copies of the rating letters are ***enclosed*** herewith.

Request you to kindly take the same in your records.

Thanking You,

Yours Truly,

For **Avanse Financial Services Limited**

Rahul Bhapkar
Chief Financial Officer

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

6 Feb 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 places 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 Plus (Structured Obligation)] Outlook: Negative	Provisional BWR AA (SO) [Pronounced as BWR Double A (Structured Obligation)] Credit Watch with Negative Implications 'Downgraded'
Secured NCDs	525.00	Long Term	BWR AA+ (SO) [Pronounced as BWR Double A Plus (Structured Obligation)] Outlook: Negative	BWR AA (SO) [Pronounced as BWR Double A (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

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 sharp fall in disbursements and decrease in profitability of DHFL during Q3FY19, and an expectation of a continued slowdown in growth and pressure on profitability.

The ratings have been placed on 'Credit Watch with Negative Implications' following certain negative media reports on DHFL, which has impacted DHFL's financial flexibility to support AFSL. Any negative outcome of the investigations related to the negative media news related to DHFL will be the key rating sensitivity.

DHFL has however endeavored certain measures to restore lender and investor confidence and to strengthen its fundamental position. BWR will continue to monitor the developments in this regard and DHFL's ability to support its group companies in times of stress, while managing its own liquidity.

The rating continues to reflect 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, comfortable asset quality and adequate capitalisation.

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 Gainda (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 135 Crs of cash & bank balance and ~Rs 164 Crs of unutilised credit lines (term loans) as of Dec 31, 2018. The company does not have any outstanding commercial paper as on Dec 31, 2018.

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).

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 (Feb 2019)	Rating History					
				FY18		FY17	FY16	FY15	FY14
				21.1.19	3.07.17, 6.12.17, 27.12.17, 17.12.18	29.7.16	15.10.15, 31.03,16	9.06.14 & 23.01.15	18.2.14
1	Proposed Subordinated NCDs	50.00	Provisional BWR AA (SO) Credit Watch with Negative Implications	Provisional BWR AA+ (SO) Outlook: Negative	NA	NA	NA	NA	NA
2	Secured NCDs	525.00	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)	NA	NA
3	Subordinated NCDs	75.00	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)	NA	NA
	Total	650.00							
1	Term Loans	100.00	NA	NA	NA	NA	NA	Rating Withdrawn	BWR AA (SO) (Stable)
	Total	100.00							

Status of non-cooperation with previous CRA : NA

Any Other Comments: NA

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Banks & Financial Institutions

Analytical Contacts	Media
Rajat Bahl **Chief Analytical Officer & Head - Financial Institutions** analyst@brickworkratings.com	media@brickworkratings.com **Relationship Contact** bd@brickworkratings.com
Phone: 1-860-425-2742	

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 NCDs	INE087P08038	27/Dec/17	27/Dec/27	9.35%	Annually	25.00	25.00
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.

Avanse Financial Services Limited

February 06, 2019

Ratings

Instrument	Amount (Rs. crore)	Ratings	Rating Action
Sub Debt*	75	CARE AA- (SO) [Double A Minus (Structured Obligation)] (Credit watch with developing implications)	Revised from CARE AA (SO); Stable [Double A (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications
Non-Convertible Debentures*	445	CARE AA (SO) [Double A (Structured Obligation)] (Credit watch with developing implications)	Revised from CARE AA+ (SO); Stable [Double A Plus (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications
	655	Provisional CARE AA (SO) [Provisional Double A (Structured Obligation)] (Credit watch with developing implications)	Revised from Provisional CARE AA+ (SO); Stable [Provisional Double A Plus (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications
Commercial Paper	500	CARE A1+ [A One Plus] (Credit watch with developing implications)	Placed on credit watch with developing implications
Long term bank facilities*	1945	CARE AA (SO) [Double A (Structured Obligation)] (Credit watch with developing implications)	Revised from CARE AA+ (SO); Stable [Double A Plus (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications
	255	Provisional CARE AA (SO) [Provisional Double A (Structured Obligation)] (Credit watch with developing implications)	Revised from Provisional CARE AA+ (SO); Stable [Provisional Double A Plus (Structured Obligation); Outlook: Stable]; placed on credit watch with developing implications
Total	**3875 (Rs. Three thousand eight hundred and seventy five crore only)**		

*The ratings are based on credit enhancement in the form of a 'Letter of Comfort' issued by Dewan Housing Finance Corporation Ltd. (DHFL), rated **'CARE AA+ (Double A Plus); Credit watch with developing implications'**, in favour of AFSL's lenders/investors.

Details of instruments/facilities in Annexure-1

Detailed description of the key rating drivers of DHFL (LOC Provider)

The ratings are based on credit enhancement in the form of a 'Letter of Comfort' issued by Dewan Housing Finance Corporation Ltd (DHFL), in favour of Avanse Financial Services Ltd's (AFSL) lenders/investors. The revision in the various long-term ratings of debt instruments & bank facilities of AFSL follows revision in the ratings of DHFL. The revision in ratings of DHFL takes into account moderation in its financial flexibility as evidenced by sharp reduction in its share price and significant rise in bond spreads. While stock prices and credit spreads were negatively affected for NBFCs and HFCs post September 2018, recent media news related to DHFL has further impacted market sentiment. DHFL's ability to raise resources at competitive rates would be crucial for its profitability and long-term growth prospects going forward.

DHFL, in order to tackle the changed market conditions, has embarked upon certain strategic measures which it intends to conclude in the medium term, with some milestones being targeted to be concluded by March 2019. The milestones include fresh capital infusion of around Rs.2,000 crore and monetization of certain group investments by DHFL and its parent (Wadhawan Global Capital Limited) aimed at considerably reducing the gearing levels of DHFL to below 8 times. Other milestones include halving of its builder loan portfolio from its level as on December 31, 2018. CARE has placed the ratings under credit watch with developing implications in light of recent events and will continue to monitor the situation.

The ratings continue to factor in consistent track record of DHFL in the housing finance sector spanning over three decades across business cycles and expertise in lending to the lower-middle income group borrower segment while maintaining asset quality. The ratings also factor in DHFL's experienced management, adequate capital adequacy, diversified resource profile, moderate liquidity profile and increasing share of wholesale loans in overall portfolio mix, which is a relatively riskier segment, even though efforts are underway to reduce the same. Capitalization levels, gearing, ability to access funding at competitive rates and asset quality are the key rating sensitivities.

Detailed description of the key rating drivers of AFSL

The rating assigned to the Commercial Paper issue of Avanse Financial Services Ltd (AFSL) takes into account its strong parentage of Dewan Housing Finance Corporation Limited (DHFL; rated 'CARE AA+ (Double A Plus); Credit watch with developing implications'. The rating also factors in AFSL's experienced management, adequate capital adequacy and gearing levels, moderate profitability, diversified resource profile and liquidity profile. However, the rating remains constrained by small size of operations and limited track record with majority of exposure to a single asset class viz. Education Loans. The continued support from its parent DHFL, asset quality and business growth are the key rating sensitivities for AFSL.

Detailed description of the key rating drivers of DHFL (LOC Provider)

Key rating strengths

Consistent track record of business performance across business cycles and expertise in lending in the niche market segment of Lower and Middle Income group

DHFL has a consistent track record of over three decades in the housing finance business spanning across business cycles. Over the years, the company has developed expertise in lending to borrowers in the lower and middle income group segment while maintaining stable asset quality. The penetration of housing finance market in India continues to be low and India's urban housing shortage is primarily driven by the LIG and EWS categories. The growing credit demand in this market segment coupled with the Government's thrust in providing affordable housing throughout the country through various schemes/ programmes is expected to enable DHFL in further strengthening its business position in this segment.

Experienced management

The company's management team is led by Mr Kapil Wadhawan who is the Chairman and Managing Director (CMD). Mr. Harshil Mehta is JMD & CEO of the company. He is assisted by an experienced management team. The group few years back had formed group management centre (GMC) which has inducted experienced professionals from the industry. The GMC comprises of Mr. Srinath Sridharan, Mr. M. Suresh (former MD and CEO – Tata AIG). The role of the GMC is to provide strategic direction to group companies and bring in better governance.

Diversified resource profile and average capitalization levels

The company has demonstrated track record of raising capital (both equity and debt) at regular intervals to fund business growth and has a diversified resource profile. As on March 31, 2018, bank borrowings comprised 42% of the total borrowings [P.Y.: 42%], NHB refinance- 3% [P.Y.: 4%], market borrowings- 40% [P.Y.: 42%], public deposits- 11% [P.Y.: 8%] and external commercial borrowings- 3% [P.Y.: 4%]. DHFL's overall gearing remain stable at 10.54x as on March 31, 2018 [P.Y.: 10.29x]. The company also concluded public issuance of NCD of Rs.12,000 crore in Q1FY19. As on March 31, 2018, company's CAR and Tier I CAR stood at 15.29% [P.Y.: 19.12%] and 11.52% [P.Y.: 14.75%] respectively. As on December 31, 2018, reported Total CAR and Tier I CAR ratio stood at 17.74% and 13.10% respectively.

As informed by the company, about Rs.2000 crore of fresh equity capital infusion is planned by March 2019, which is expected to bring down overall gearing levels to 7 to 8 times by March 2019.

Comfortable asset quality

Over the years, DHFL has developed the expertise in lending to the low-middle income group segment while maintaining comfortable asset quality parameters. In the current challenging environment, going forward maintaining asset quality remains to be seen. The company reported Gross NPA ratio of 0.96% as on March 31, 2018 [P.Y.: 0.94%] and Net NPA ratio of 0.56% [P.Y.: 0.58%]. The Net NPA to Net worth ratio stood at 5.85% as on March 31, 2018 [P.Y.: 5.30%]. As on December 31, 2018, reported GNPA % (loss asset in stage 3) stood at 1.12% as compared to 0.96% as on September 30, 2018.

Stable profitability albeit moderation expected

During FY18, NIM remains stable at 2.46% as compared to 2.50% in FY17. DHFL reported PAT of Rs.1172 crore in FY18 as against PAT of Rs.2896 crore (including one-time gain of Rs.1969 crore) in FY17. During FY18, DHFL's ROTA (adjusted for one time profit) as well as adjusted ROTA (adjusted for off book assets and one time profit) remained stable at 1.17% [P.Y.: 1.16%] and 1.02% [P.Y.: 1.03%].

During 9MFY19, DHFL reported PAT of Rs.1187 crore on the total income of Rs.9936 crore as compared to PAT of Rs.1106 crore on total income of Rs.8029 crore. On Y-o-Y level, PAT grew by marginal rate of 7% mainly due sharp reduction in profitability in Q3FY19 on account tight liquidity condition, rise in borrowing costs and slowdown in disbursements.

Key Rating Weaknesses

Exposure to low and middle income segment with increasing proportion of wholesale loans

DHFL has exposure to the lower and middle income group which is more prone to defaults in case of a stressed economic scenario. Further, the proportion of wholesale loans (builder loans) increased to 20% of the outstanding loan book as on September 2018 from 18% as on March 2018 and 14% as on March 2017, which is a relatively riskier segment.

Further as informed by the company, by March 2019, the proportion of individual home loans as percentage of total loan portfolio will increase above 51% and proportion of builder loan book to come down to 10% of total loan book as compared to 20% as on September 30, 2018.

Sharp reduction in share price and rise in bond spreads aggravated by media news

DHFL is a listed company on major the stock exchanges viz. BSE and NSE. Post September 2018, the liquidity scenario tightened for NBFC and HFC sector, and DHFL witnessed sharp rise in yields of bonds traded in the secondary markets and also sharp reduction in the share price (closing price of Rs.350.55 per share on September 21, 2018 as compared to previous closing at Rs.610.55 per share on September 20, 2018). DHFL responded to the prevailing market conditions and reduced disbursements in Q3FY19 in order to maintain adequate liquidity and also raised fresh funds through various securitization deals, NCD, CP, FD and bank borrowings.

Further, during the last week of January 2019, there was media news related to DHFL which further affected the market sentiments which led to a sharp fall in share prices, closing at Rs.111.20 per share on February 1, 2019. This has resulted in moderation in the financial flexibility of DHFL and its ability to maintain its competitive positioning and long term growth prospects may be affected if the situation persists for considerable period.

Detailed description of the key rating drivers of AFSL

Key rating strengths

Strong Parentage

DHFL which currently holds 30.63% equity stake in AFSL has given a letter of comfort for servicing of obligations of AFSL under the rated facilities / instruments. Wadhwan Global Capital Private Ltd and its promoter group entities hold another 49.37% stake in AFSL currently. Thus the total stake of DHFL & promoter group entities is 80.00% and rest 20.00% shareholding is with International Finance Corporation Ltd (IFC). Incorporated in 1984, DHFL is one of the largest housing finance companies in India with the total asset size and loan portfolio of Rs.1,07,573 crore and Rs.91,930 crore respectively as on March 31, 2018.

Experienced management team

The company is headed by a five member board of directors which includes Mr. Kapil Wadhawan (Chairman & Managing Director of DHFL) as Non Executive Chairman Mr. Suresh Mahalingam as Non-Executive director, and three independent directors Mr. M.K. Chouhan, Mr. S. K. Jain and Ms. Savita Mahajan. The operations of the company are managed by a team of professionals led by Mr. Amit Gainda (Chief Executive Officer of AFSL) who have vast experience in the financial services and mortgage business.

Adequate capital adequacy and gearing levels

The tangible net-worth of the company increased to Rs.480.19 crore as on March 31, 2018 as compared to Rs.138.48 crore as on March 31, 2017. In FY18 Total CAR stood at 25.71% (FY17: 16.50%) with Tier-I CAR at 21.73% (FY17: 13.63%). The overall gearing decreased to 3.86 times for FY18 (FY17: 6.46 times). Capital adequacy is expected to be comfortable considering regular capital infusion by DHFL and other shareholders.

Moderate Profitability

The company in FY18 reported a net profit of Rs.10.25 crore (PY: Rs.5.60 crore) on total income of Rs.214.95 crore (PY: Rs.112.08 crore). Net interest margin for FY18 stood at 4.02% as compared to 3.75% in FY17. Due to rise in loan book, the interest income has increased 95% y-o-y. Yields have come down marginally due to loan book growth of 112% y-o-y. Also, the cost of borrowing has come down from 9.41% in FY17 to 8.70% in FY18. Due to increase in profitability and increase in asset size as well, ROTA has marginally come down from 0.66% in FY17 to 0.59% in FY18.

AFSL had Gross NPA of 0.09% and Net NPA of 0.07% at the end of March 31, 2018. Net NPA to net worth stood at 0.31%.

Diversified Resource profile

Parentage of DHFL has helped AFSL in availing funding and creating a liability profile. Being part of DHFL, AFSL manages to raise funds from market at competitive rates. The total borrowing was Rs.1,851 crore as on March 31, 2018. As on March 31, 2018, AFSL availed bank facilities in the nature of term loan and cash credit from 19 banks. As on March 31, 2018, AFSL's Net worth was Rs.484.99 crore.

Key Rating Weaknesses

Small size of operations & limited track record

The company started its operations in January 2013 and has a relatively limited track record of operations. The total sanctions and disbursements at end of March 2018 stood at Rs.2,242 crore and Rs.1,517 crore respectively..

Majority of exposure to single asset class

AFSL is primarily present into educational loans. This brings in concentration risk as any fall in demand for educational loan may severely impact the operations and profitability of the company. Also, educational loans have seasonal demand based upon the admission procedures in various institutions. During FY15, AFSL has diversified into education Infrastructure loans. Education Infrastructure loans at the end of FY18 stood at Rs.560.66 crore (FY17: Rs.165.94 crore) which is 25.64% (FY17: 16.89%) of total loan book. These loans are bulky in nature thereby exposing the company borrower concentration risk. These loans are provided for to existing educational institutions for construction, expansion, improvement, purchase of equipment / facility, as well as to meet working capital requirements. The average tenure of these loans would be 9 years with average IRR of around 14%. During FY18, AFSL has initiated lending to Financial Institutions and Small and Medium Enterprises.

Introduction of new product will help AFSL in diversification of its loan portfolio and improve the book yield. However, due to the bulky nature of education infrastructure loan AFSL will be exposed to borrower concentration risk. The company is not yet termed in 'Gazette notified under financial Institution' under the Income Tax Act, 1961 so the benefit of Section 80E is not applicable to the borrowers.

Liquidity profile

There are positive cumulative mismatches upto the 1 year time bucket as on December 31, 2018 considering committed lines of credit of Rs.164 crore. The cash & cash equivalents amount to Rs.143 crore as on December 31, 2018.

Analytical approach: The rating of instruments/facilities of AFSL is based on the assessment of DHFL which has given 'Letter of Comfort' for these instruments. Rating of commercial paper is based on the Standalone assessment of AFSL along with factoring in its linkage with the parent group.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Non Banking Financial Companies
Financial ratios – Financial Sector
Factor Linkages in Ratings

About the Company

DHFL

Incorporated in 1984, DHFL is the third-largest housing finance company in India with total asset size of Rs.1,07,436 crore as on March 31, 2018. The company has a successful track record of over 30 years of lending in the low and middle income group in Tier II and Tier III cities, primarily to salaried individuals. DHFL had a loan portfolio of Rs.91,930 crore as on March 31, 2018. The company operates through a network of over 349 offices (incl. branches and service centres). DHFL also has international presence through representative offices located in London and Dubai which cater to the housing needs of non-resident Indians. Dewan Group also has presence in the housing finance business through Aadhar Housing Finance Private Limited.

Brief Financials of DHFL (Rs. crore)	FY17 (A)	FY18 (A)
Total income	10,827	10,465
PAT	2,896	1,172
Interest coverage (times)	1.51	1.23
Total Assets	92,298	107,436
Net NPA (%)	0.58	0.56
ROTA (%)	3.62	1.17

A: Audited

AFSL

Avanse Financial Services Ltd. (AFSL) was formed in August 1992 and was known as Abhivruddhi Holdings Pvt. Ltd. (AHPL). Dewan Housing Finance Corporation Ltd. (DHFL) & other promoter group entities bought 100% stake in AHPL in July 2012 and commenced education loan business from January, 2013. International Finance Corporation (IFC) acquired 20% stake in company for Rs.12.75 crore in July 2013. On February 7, 2014, the name of the company was changed from Avanse Financial Services Private Limited to "Avanse Financial Services Limited". The equity holding of DHFL & promoter group entities is 84.88% at the end of FY18. Mr Kapil Wadhawan, Chairman of DHFL, is also a Chairman of AFSL and is supported by Mr Amit Gainda as CEO.

AFSL is engaged in the business of providing education loan for the purpose of higher studies both in India and abroad and for professional/ executive courses to working professional and also to Education Institutions for their Working Capital and Growth Capital requirements. AFSL has also started disbursing Loans to financial institutions and MSME in FY18. AFSL started its business operations in January, 2013. AFSL has presence in 11 major cities across India at the end of March, 2018 and Sales representative offices at 4 locations. Total loan outstanding and disbursement stood at Rs.2187 crore and Rs.1517 crore respectively at the end of FY18.

Brief Financials (Rs. crore)	**FY17 (A)**	**FY18 (A)**
Total operating income	106	209
PAT	6	10
Interest coverage (times)	1.09	1.13
Total Assets*	1,059	2,385
Net NPA (%)	0.25	0.07
ROTA (%)	0.66	0.59

*A: Audited *adjusted for Intangible assets and Deferred tax assets*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	190	CARE AA (SO) (Credit watch with developing implications)
Term Loan-Long-term	-	-	-	255	Provisional CARE AA (SO) (Credit watch with developing implications)
Fund-based - LT-Term Loan	-	-	01-Jan-24	138	CARE AA (SO) (Credit watch with developing implications)
Fund-based - LT-Term Loan	-	-	03-Jul-24	107	CARE AA (SO) (Credit watch with developing implications)
Fund-based - LT-Term Loan	-	-	14-Jan-23	21	CARE AA (SO) (Credit watch with developing implications)
Fund-based - LT-Term Loan	-	-	09-Mar-24	63	CARE AA (SO) (Credit watch with developing implications)
Fund-based - LT-Term Loan	-	-	22-Mar-25	1375	CARE AA (SO) (Credit watch with developing implications)
Fund-based - LT-Term Loan	-	-	01-Jan-24	51	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	31-Jul-15	10.10%	31-Jul-25	0.5	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	31-Jul-15	10.10%	31-Jul-25	15	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	31-Jul-15	10.10%	31-Jul-25	9.5	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	07-Aug-15	10.05%	08-Aug-22	5	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	07-Aug-15	10.05%	08-Aug-22	5	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	07-Aug-15	10.10%	07-Aug-25	7	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	07-Aug-15	10.10%	07-Aug-25	8	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	26-Oct-15	9.55%	26-Oct-20	10	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	26-Feb-16	9.65%	26-Feb-23	10	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	03-Nov-17	8.65%	02-Nov-20	25	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	06-Jan-17	9.20%	06-Jan-22	50	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible Debentures	12-Jul-18	9.95%	12-Jul-21	250	CARE AA (SO) (Credit watch with developing implications)
Non-Convertible	29-Jun-18	9.35%	27-Sep-	50	CARE AA (SO) (Credit watch with

Debentures			19		developing implications)
Non-Convertible Debentures (Proposed)	-	-	-	655	Provisional CARE AA (SO) (Credit watch with developing implications)
Debt-Subordinate Debt	16-Mar-16	10.50%	16-Mar-24	19	CARE AA- (SO) (Credit watch with developing implications)
Debt-Subordinate Debt	16-Mar-16	10.50%	16-Mar-24	6	CARE AA- (SO) (Credit watch with developing implications)
Debt-Subordinate Debt	30-Jun-17	9.50%	30-Jun-27	25	CARE AA- (SO) (Credit watch with developing implications)
Debt-Subordinate Debt	27-Dec-17	9.35	27-Dec-27	25	CARE AA- (SO) (Credit watch with developing implications)
Commercial Paper	-	-	7 days to 1 year	500	CARE A1+ (Credit watch with developing implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	1375.00	CARE AA (SO) (Credit watch with developing implications)	1)CARE AA+ (SO); Stable (18-May-18) 2)CARE AA+ (SO); Stable (05-Apr-18) 3)CARE AA+ (SO); Stable (06-Jul-18) 4)CARE AA+ (SO); Stable (17-Jul-18) 5)CARE AA+ (SO); Stable (7-Aug-18) 6)CARE AA+ (SO); Stable (28-Sept-18) 7) CARE AA+ (SO); Stable (28-Dec-18)	1)CARE AA+ (SO); Stable (13-Feb-18) 2)CARE AA+ (SO); Stable (12-Jan-18) 3)CARE AA+ (SO); Stable (29-Dec-17) 4)CARE AA+ (SO); Stable (24-Nov-17) 5)CARE AA+ (SO); Stable (18-Oct-17) 6)CARE AA+ (SO); Stable (04-Oct-17) 7)CARE AA+ (SO); Stable (05-Sep-17) 8)CARE AA+ (SO); Stable (08-Aug-17) 9)CARE AA+ (SO); Stable (12-Jul-17) 10)CARE AA+ (SO); Stable (16-May-17)	1)CARE AA+ (SO); Stable (10-Mar-17) 2)CARE AA+ (SO) (01-Dec-16) 3)CARE AA+ (SO) (25-Jul-16) 4)CARE AA+ (SO) (14-Apr-16)	1)CARE AA+ (SO) (25-Mar-16) 2)CARE AA+ (SO) (09-Jul-15)
2.	Debentures-Non Convertible Debentures	LT	95.00	CARE AA (SO) (Credit watch with developing implications)	1)CARE AA+ (SO); Stable (06-Jul-18) 2)CARE AA+ (SO); Stable (25-Jul-18)	1)CARE AA+ (SO); Stable (09-Nov-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO); Stable (10-Mar-17) 2)CARE AA+ (SO) (25-Jul-16)	1)CARE AA+ (SO) (25-Mar-16) 2)CARE AA+ (SO) (23-Dec-15) 3)CARE AA+

								(SO) (15-Sep-15) 4)Provisional CARE AA+ (SO) (09-Jul-15)
3.	Fund-based - LT-Cash Credit	LT	190.00	CARE AA (SO) (Credit watch with developing implications)	1)CARE AA+ (SO); Stable (18-May-18) 2)CARE AA+ (SO); Stable (05-Apr-18) 3)CARE AA+ (SO); Stable (06-Jul-18) 4)CARE AA+ (SO); Stable (17-Jul-18) 5)CARE AA+ (SO); Stable (7-Aug-18) 6)CARE AA+ (SO); Stable (28-Sept-18) 7) CARE AA+ (SO); Stable (28-Dec-18)	1)CARE AA+ (SO); Stable (13-Feb-18) 2)CARE AA+ (SO); Stable (12-Jan-18) 3)CARE AA+ (SO); Stable (29-Dec-17) 4)CARE AA+ (SO); Stable (24-Nov-17) 5)CARE AA+ (SO); Stable (18-Oct-17) 6)CARE AA+ (SO); Stable (04-Oct-17) 7)CARE AA+ (SO); Stable (05-Sep-17) 8)CARE AA+ (SO); Stable (08-Aug-17) 9)CARE AA+ (SO); Stable (12-Jul-17) 10)CARE AA+ (SO); Stable (16-May-17)	1)CARE AA+ (SO); Stable (10-Mar-17) 2)CARE AA+ (SO) (01-Dec-16) 3)CARE AA+ (SO) (25-Jul-16) 4)CARE AA+ (SO) (14-Apr-16)	1)CARE AA+ (SO) (25-Mar-16) 2)CARE AA+ (SO) (09-Jul-15)
4.	Term Loan-Long Term	LT	255.00	Provisional CARE AA (SO) (Credit watch with developing implications)	1)Provisional CARE AA+ (SO); Stable (18-May-18) 2)Provisional CARE AA+ (SO); Stable (05-Apr-18) 3)Provisional CARE AA+ (SO); Stable (06-Jul-18) 4)Provisional CARE AA+ (SO); Stable (17-Jul-18) 5)Provisional CARE AA+ (SO); Stable (7-Aug-18) 6)Provisional CARE AA+	1)Provisional CARE AA+ (SO); Stable (13-Feb-18) 2)Provisional CARE AA+ (SO); Stable (12-Jan-18) 3)Provisional CARE AA+ (SO); Stable (29-Dec-17) 4)Provisional CARE AA+ (SO); Stable (24-Nov-17) 5)Provisional CARE AA+ (SO); Stable (18-Oct-17) 6)Provisional CARE AA+ (SO);	1)Provisional CARE AA+ (SO); Stable (10-Mar-17) 2)Provisional CARE AA+ (SO) (01-Dec-16) 3)Provisional CARE AA+ (SO) (25-Jul-16) 4)Provisional CARE AA+ (SO) (14-Apr-16)	1)Provisional CARE AA+ (SO) (25-Mar-16) 2)Provisional CARE AA+ (SO) (09-Jul-15)

					(SO); Stable (28-Sept-18) 7) Provisional CARE AA+ (SO); Stable (28-Dec-18)	Stable (04-Oct-17) 7)CARE AA+ (SO); Stable (05-Sep-17) 8)Provisional CARE AA+ (SO); Stable (08-Aug-17) 9)Provisional CARE AA+ (SO); Stable (12-Jul-17) 10)Provisional CARE AA+ (SO); Stable (16-May-17)		
5.	Debentures-Non Convertible Debentures	LT	55.00	Provisional CARE AA (SO) (Credit watch with developing implications)	1)Provisional CARE AA+ (SO); Stable (06-Jul-18) 2)Provisional CARE AA+ (SO); Stable (25-Jul-18)	1)Provisional CARE AA+ (SO); Stable (09-Nov-17) 2)Provisional CARE AA+ (SO); Stable (12-Jul-17)	1)Provisional CARE AA+ (SO); Stable (10-Mar-17) 2)Provisional CARE AA+ (SO) (25-Jul-16)	1)Provisional CARE AA+ (SO) (25-Mar-16) 2)Provisional CARE AA+ (SO) (23-Dec-15)
6.	Debt-Subordinate Debt	LT	25.00	CARE AA- (SO) (Credit watch with developing implications)	1)CARE AA (SO); Stable (06-Jul-18)	1)CARE AA (SO); Stable (29-Dec-17) 2)CARE AA (SO); Stable (12-Jul-17)	1)CARE AA (SO); Stable (10-Mar-17) 2)CARE AA (SO) (25-Jul-16)	1)Provisional CARE AA (SO) (25-Mar-16)
7.	Fund-based - LT-Term Loan	LT	138.00	CARE AA (SO) (Credit watch with developing implications)	1)CARE AA+ (SO); Stable (18-May-18) 2)CARE AA+ (SO); Stable (05-Apr-18) 3)CARE AA+ (SO); Stable (06-Jul-18) 4)CARE AA+ (SO); Stable (17-Jul-18) 5)CARE AA+ (SO); Stable (7-Aug-18) 6)CARE AA+ (SO); Stable (28-Sept-18) 7) CARE AA+ (SO); Stable (28-Dec-18)	1)CARE AA+ (SO); Stable (13-Feb-18) 2)CARE AA+ (SO); Stable (12-Jan-18) 3)CARE AA+ (SO); Stable (29-Dec-17) 4)CARE AA+ (SO); Stable (24-Nov-17) 5)CARE AA+ (SO); Stable (18-Oct-17) 6)CARE AA+ (SO); Stable (04-Oct-17) 7)CARE AA+ (SO); Stable (05-Sep-17) 8)CARE AA+ (SO); Stable (08-Aug-17) 9)CARE AA+	1)CARE AA+ (SO); Stable (10-Mar-17) 2)CARE AA+ (SO) (01-Dec-16) 3)CARE AA+ (SO) (25-Jul-16) 4)CARE AA+ (SO) (14-Apr-16)	-

						(SO); Stable (12-Jul-17) 10)CARE AA+ (SO); Stable (16-May-17)		
8.	Fund-based - LT-Term Loan	LT	107.00	CARE AA (SO) (Credit watch with developing implications)	1)CARE AA+ (SO); Stable (18-May-18) 2)CARE AA+ (SO); Stable (05-Apr-18) 3)CARE AA+ (SO); Stable (06-Jul-18) 4)CARE AA+ (SO); Stable (17-Jul-18) 5)CARE AA+ (SO); Stable (7-Aug-18) 6)CARE AA+ (SO); Stable (28-Sept-18) 7) CARE AA+ (SO); Stable (28-Dec-18)	1)CARE AA+ (SO); Stable (13-Feb-18) 2)CARE AA+ (SO); Stable (12-Jan-18) 3)CARE AA+ (SO); Stable (29-Dec-17) 4)CARE AA+ (SO); Stable (24-Nov-17) 5)CARE AA+ (SO); Stable (18-Oct-17) 6)CARE AA+ (SO); Stable (04-Oct-17) 7)CARE AA+ (SO); Stable (05-Sep-17) 8)CARE AA+ (SO); Stable (08-Aug-17) 9)CARE AA+ (SO); Stable (12-Jul-17) 10)CARE AA+ (SO); Stable (16-May-17)	1)CARE AA+ (SO); Stable (10-Mar-17) 2)CARE AA+ (SO) (01-Dec-16) 3)CARE AA+ (SO) (25-Jul-16)	-
9.	Fund-based - LT-Term Loan	LT	21.00	CARE AA (SO) (Credit watch with developing implications)	1)CARE AA+ (SO); Stable (18-May-18) 2)CARE AA+ (SO); Stable (05-Apr-18) 3)CARE AA+ (SO); Stable (06-Jul-18) 4)CARE AA+ (SO); Stable (17-Jul-18) 5)CARE AA+ (SO); Stable (7-Aug-18) 6)CARE AA+ (SO); Stable (28-Sept-18) 7) CARE AA+ (SO); Stable (28-Dec-18)	1)CARE AA+ (SO); Stable (13-Feb-18) 2)CARE AA+ (SO); Stable (12-Jan-18) 3)CARE AA+ (SO); Stable (29-Dec-17) 4)CARE AA+ (SO); Stable (24-Nov-17) 5)CARE AA+ (SO); Stable (18-Oct-17) 6)CARE AA+ (SO); Stable (04-Oct-17) 7)CARE AA+ (SO); Stable (05-Sep-17) 8)CARE AA+	1)CARE AA+ (SO); Stable (10-Mar-17) 2)CARE AA+ (SO) (01-Dec-16)	-

						(SO); Stable (08-Aug-17) 9)CARE AA+ (SO); Stable (12-Jul-17) 10)CARE AA+ (SO); Stable (16-May-17)		
10.	Fund-based - LT-Term Loan	LT	63.00	CARE AA (SO) (Credit watch with developing implications)	1)CARE AA+ (SO); Stable (18-May-18) 2)CARE AA+ (SO); Stable (05-Apr-18) 3)CARE AA+ (SO); Stable (06-Jul-18) 4)CARE AA+ (SO); Stable (17-Jul-18) 5)CARE AA+ (SO); Stable (7-Aug-18) 6)CARE AA+ (SO); Stable (28-Sept-18) 7) CARE AA+ (SO); Stable (28-Dec-18)	1)CARE AA+ (SO); Stable (13-Feb-18) 2)CARE AA+ (SO); Stable (12-Jan-18) 3)CARE AA+ (SO); Stable (29-Dec-17) 4)CARE AA+ (SO); Stable (24-Nov-17) 5)CARE AA+ (SO); Stable (18-Oct-17) 6)CARE AA+ (SO); Stable (04-Oct-17) 7)CARE AA+ (SO); Stable (05-Sep-17) 8)CARE AA+ (SO); Stable (08-Aug-17) 9)CARE AA+ (SO); Stable (12-Jul-17) 10)CARE AA+ (SO); Stable (16-May-17)	1)CARE AA+ (SO); Stable (10-Mar-17)	-
11.	Debentures-Non Convertible Debentures	LT	50.00	CARE AA (SO) (Credit watch with developing implications)	1)CARE AA+ (SO); Stable (06-Jul-18) 2)CARE AA+ (SO); Stable (25-Jul-18)	1)CARE AA+ (SO); Stable (09-Nov-17) 2)CARE AA+ (SO); Stable (12-Jul-17)	1)CARE AA+ (SO); Stable (10-Mar-17)	-
12.	Debentures-Non Convertible Debentures	LT	100.00	Provisional CARE AA (SO) (Credit watch with developing implications)	1)Provisional CARE AA+ (SO); Stable (06-Jul-18) 2)Provisional CARE AA+ (SO); Stable (25-Jul-18)	1)Provisional CARE AA+ (SO); Stable (09-Nov-17) 2)Provisional CARE AA+ (SO); Stable (12-Jul-17)	-	-
13.	Fund-based - LT-Term Loan	LT	51.00	CARE AA (SO) (Credit watch with	1)CARE AA+ (SO); Stable (18-May-18)	1)CARE AA+ (SO); Stable (13-Feb-18)	-	-

				developing implications)	2)CARE AA+ (SO); Stable (05-Apr-18) 3)CARE AA+ (SO); Stable (06-Jul-18) 4)CARE AA+ (SO); Stable (17-Jul-18) 5)CARE AA+ (SO); Stable (7-Aug-18) 6)CARE AA+ (SO); Stable (28-Sept-18) 7) CARE AA+ (SO); Stable (28-Dec-18)	2)CARE AA+ (SO); Stable (12-Jan-18) 3)CARE AA+ (SO); Stable (29-Dec-17) 4)CARE AA+ (SO); Stable (24-Nov-17) 5)CARE AA+ (SO); Stable (18-Oct-17) 6)CARE AA+ (SO); Stable (04-Oct-17) 7)CARE AA+ (SO); Stable (05-Sep-17) 8)CARE AA+ (SO); Stable (08-Aug-17) 9)CARE AA+ (SO) (12-Jul-17) 10)CARE AA+ (SO) (16-May-17)		
14.	Debt-Subordinate Debt	LT	25.00	CARE AA- (SO) (Credit watch with developing implications)	1)CARE AA (SO); Stable (06-Jul-18)	1)CARE AA (SO); Stable (29-Dec-17) 2)Provisional CARE AA (SO); Stable (12-Jul-17)	-	-
15.	Debt-Subordinate Debt	LT	25.00	CARE AA- (SO) (Credit watch with developing implications)	1)CARE AA (SO); Stable (06-Jul-18)	1)CARE AA (SO); Stable (29-Dec-17) 2)CARE AA (SO); Stable (12-Jul-17)	-	-
16.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA (SO) (Credit watch with developing implications)	1)Provisional CARE AA+ (SO); Stable (06-Jul-18) 2)CARE AA+ (SO); Stable (25-Jul-18)	1)Provisional CARE AA+ (SO); Stable (24-Nov-17)	-	-
17.	Commercial Paper	ST	500.00	CARE A1+ (Credit watch with developing implications)	1)CARE A1+ (24-Apr-18) 2)CARE A1+ (06-Jul-18)	1)CARE A1+ (05-Mar-18)	-	-

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Ratings

CRISIL
An S&P Global Company

Rating Rationale

February 02, 2019 | Mumbai

Avanse Financial Services Limited

Rating placed on 'Watch Negative'

Rating Action

Rs.500 Crore Commercial Paper Programme	**CRISIL A1+ (Placed on 'Rating Watch with Negative Implications')**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has placed its rating on the commercial paper programme of Avanse Financial Services Limited (Avanse) on **'Rating Watch with Negative Implications'**. The rating action is linked to the rating of Dewan Housing Finance Corporation Ltd (DHFL) being placed on Rating Watch with Negative Implications.

At present, CRISIL's rating on Avanse factors in the expected support from DHFL, the flagship company of Dewan group. CRISIL has noted that Dewan group management had, during the investor conference call following DHFL's Q3FY19 results, said that it is in the process of divesting stake in Avanse. Till the transaction is announced and consummated, CRISIL expects DHFL and Dewan group to continue to support Avanse and consequently, the ratings will remain linked to DHFL.

The existing rating continues to reflect the expectation of continued support from DHFL and Dewan group (Dewan group held 79.67% stake in Avanse as on December 31, 2018). The rating also reflects adequate capitalisation of Avanse. These strengths are partially offset by limited track record in the education loan segment, and susceptibility to asset quality challenges in the medium term due 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 that DHFL and Dewan group, will provide distress support to Avanse for timely repayment of debt obligations till the time it is part of the Dewan group. Consequently, the ratings will remain linked to DHFL.

Key Rating Drivers & Detailed Description

Strengths:

*** Expectation of support from DHFL and Dewan group**

The rating continues to reflect expectation of support from DHFL and Dewan group, till the time Avanse is part of the group. DHFL holds 30.63% stake, and Dewan group (including DHFL) holds 79.67% stake in Avanse.

CRISIL has noted that Dewan group management had, during the investor conference call following DHFL's Q3FY19 results, said that it is in the process of divesting stake in Avanse. Till the transaction is announced and consummated, CRISIL expects DHFL and Dewan group to continue to support Avanse and consequently, the ratings will remain linked to DHFL and Dewan group. CRISIL will take appropriate need-based rating action once a transaction is formally announced.

*** Adequate capitalisation**

The 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). Avanse's gearing stood at 4.3 times as on December 31, 2018 as against 3.8 times as on March 31, 2018. During fiscal 2018, total equity capital of Rs 335 crore was infused in Avanse. First tranche Rs 75 crore was infused in June 2017, while another tranche of Rs 260 crore was infused in March 2018. For the first nine months of fiscal 2019, the capital infusion stood at Rs.66 crore. Despite growing at healthy pace, CRISIL expects Avanse to maintain overall CAR at around 16% or above and gearing at around 5.5 times on a steady-state basis, over the medium term.

Weakness:

*** Susceptibility to asset quality challenges in the medium term**

The loan portfolio grew at a significant pace to reach Rs 3000 crore as on December 31, 2018, from Rs 2187 crore as on March 31, 2018 and Rs 982 crore as on March 31, 2017. Therefore, the loan book is not adequately seasoned. The risks associated with these segments are higher and need close monitoring. Furthermore, lending to financial sector entities started since the third quarter of fiscal 2018 and a loan book of Rs 231 crore has been built up as on March 31, 2018. This comprises lending to small non-banking financial companies (NBFCs), microfinance institutions, and housing finance companies. Nevertheless, as on December 31, 2018, the gross NPA of the company stood at just 0.55% and net NPA at 0.48%. Given the strong growth in the past two fiscals and the long tenure of the loans, ability to successfully manage the risks across business cycles is yet to be demonstrated.

*** Limited track record of operations**

Operations of Avanse began in January 2013 but the loan book has grown significantly only during past two fiscals. The company is a relatively small player in the domestic education loan segment, which has been dominated by public sector banks. Nevertheless, competition is limited in the high-yield, large ticket-size overseas education loans segment. The company has entered into newer asset segments such as loans to financial sector entities and micro, small and medium enterprises (MSMEs). Presently, loans to financial sector entities are around 10% of the overall loan book. As diversification started only in fiscal 2018, the track record in all the asset segments remains limited. CRISIL believes that Avanse will need to create a meaningful market position in the overseas loan segment to achieve scale and profitability over the medium term. Further, its ability to scale-up its loan book in newer asset classes will also remain a key monitorable.

Liquidity

Avanse's asset liability maturity (ALM) statement as on December 31, 2018, shows cumulative negative gaps in buckets up to one year. The company had cash and liquid investments of Rs 136 crore and unutilised bank lines of Rs.164 crore as on January 4, 2019. Average monthly collections as per ALM is to the tune of Rs 45 crore. Against this, the company has aggregate debt and loan repayments of Rs 76 crore over the two months till March 2019. The company does not have any outstanding commercial paper as on January 31, 2019.

About the Company

Avanse provides education loans for students pursuing higher studies in India and abroad, and loans 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 Avanse Financial Services Pvt. Ltd 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. In an effort to further diversify the loan book, it commenced lending to financial sector entities since the third quarter of fiscal 2018; this segment comprised 10% of the overall loan book as on March 31, 2018

Profit after tax (PAT) was Rs 10 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 through 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 has decreased materially to 74% during the first half of fiscal 2019 compared to 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	213	111
Profit after tax	Rs crore	20.8	10	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	CRISIL A1+/Watch Negative

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	1000.00	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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