

## RATING RATIONALE

13 Jan 2025

### Avanse Financial Services Limited

**Brickwork Ratings reaffirms the long-term ratings for the Non-Convertible Debentures of Rs. 90.00 crores of Avanse Financial Services Limited.**

#### Particulars:

Instruments**	Amount (Rs. in Crs.)		Tenure	Rating*	
	Previous	Present		Previous (Jan. 15, 2024)	Present
Secured NCDs	40.00	<b>40.00</b>	<b>Long Term</b>	BWR AA-/Stable (Upgrade with revision in outlook from Positive to Stable)	<b>BWR AA-/Stable (Reaffirmation)</b>
Unsecured Subordinated Debt^	75.00	<b>50.00</b>			
<b>Total</b>	115.00	<b>90.00</b>	<b>INR Ninety Crores Only</b>		

\*Please refer to the BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings.

\*\*Complete NCD details are provided in Annexure-I

^Reduction in rated amount is on account of redemption of NCD of Rs. 25.00 crores, as confirmed by the Debenture trustee and disclosed by the company in stock exchanges.

#### RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the long-term rating at BWR AA-/Stable for outstanding Non-Convertible Debentures (NCD) of Rs. 90.00 of Avanse Financial Services Ltd. ('AFSL' or the 'Company') as tabulated above.

The reaffirmation of the rating continues to factor in the strong capitalization position, availability of adequate liquidity, backed by strategic institutional investors, and growth in AUM. BWR further draws comfort from the company's established track record in the International Education Loan segment within the non-banking landscape. While taking note of substantial growth in the portfolio, the proportionate share of the unsecured book has also been increasing over the years, although the company maintains healthy asset quality levels reflected with gross stage 3 asset ratio of less than 1%, adequate liquidity, and comfortable capitalization levels, the seasoning of the portfolio and its impact on the asset quality as the portfolio matures shall be monitorable.

#### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The NCDs rated by BWR were fully raised, and no fresh NCD is being rated by BWR. There were no changes in the terms and conditions of the NCDs. The NCDs rated by BWR are Secured NCDs and unsecured subordinated debt instruments raised under multiple series. The secured instruments rated by BWR are listed, as redeemable instruments in the nature of Non-Convertible Debentures, raised for a



tenor of 10 years with a fixed coupon rate payable annually. The unsecured instruments rated by BWR are listed, as redeemable instruments in the nature of subordinated non-convertible debentures, raised for a tenor of 10 years with a fixed coupon rate payable annually. The details of secured NCDs and unsecured subordinated debt are captured in Annexure II of the rationale.

## **KEY RATING DRIVERS**

### **Credit Strengths:-**

#### **Strong Capitalisation profile bolstered by capital infusions by institutional investors**

The company's net worth was Rs. 3,913 crores as of September 30, 2024, an improvement from Rs. 3,677 crores as of March 31, 2024, with retention of profits. Further, the Capital Adequacy Ratio (CAR) stood at 27.52% (Tier-I: 26.94%) as of March 31, 2024, against the regulatory requirement of 15% (Tier-I: 10%) which underscores the company's strong capitalization profile. As of 30 Sep 2024, the CRAR was 22.86% (as of 30 Sep 2023: 21.46%) and Tier I ratio was 22.27% (as of 30 Sep 2023: 21.12%) The gearing ratio of 3.27x as of September 30, 2024, is adequate to provide enough headroom for further growth in AUM.

The company is promoted by Olive Vine Investment Ltd, an affiliate of Warburg Pincus. Other institutional shareholders include the International Finance Corporation (IFC) and affiliates of Kedaara Capital, Mubadala Investment Company, and Avendus Future. The company has benefited from its capital sponsorship and professional experience.

The capital infusion of Rs. 1,000 crores by Mubadala Investment Company, the Abu Dhabi-based investment company, with participation from Avendus PE Investment Advisors Private Limited through its fund, Avendus Future Leaders Fund II, in March 2024 further strengthens the company's capital base.

#### **Growth in the AUM leading to improvement in the profitability**

The company's AUM continues with substantial YoY growth, AUM increasing by 54% in FY24 to Rs.13,303 crores and by 48% to Rs. 17,062 crores in H1FY25 (FY23: Rs. 8,646 crores, H1FY24: Rs. 11,492 crores). On a broader scale, the company's AUM grew at a 45% CAGR from FY20 to FY24, underscoring the company's impressive growth trajectory.

Consequently, the company's earnings parameters also improved, with total income increasing by 74% and 36% in FY24 and H1FY25, respectively, to Rs. 1,729 crores in FY24 and Rs. 1,074 crores in H1FY25. In FY24, PAT increased by 117% to Rs. 342 crores (FY23: Rs. 158 crores). This trend continued in H1FY25, with PAT increasing by 50% to Rs. 242 crores (H1FY24: Rs. 161 crores). Further, the company's return on total assets also improved to 2.83% in FY24, up from 2.04% in FY23.

### **Credit Risks:-**

#### **Portfolio Concentration inclined towards the unsecured book and geographical concentration across three overseas nations.**

Being an education loan-specific NBFC, the company is inherently susceptible to portfolio concentration risk. As of March 2024, the overseas education loan segment contributed 78% of the total portfolio of Rs. 13,303 crores. The concentration further increased in September 2024, when the contribution of overseas education loans rose to 81% of the total loan portfolio of Rs. 17,062 crores.

Moreover, the average tenure of these overseas education loans is between 10 and 12 years, which increases the portfolio's credit risk. Additionally, overseas education loans are mostly unsecured and highly vulnerable to geopolitical conditions in the countries where these loans are sanctioned. These risks are, however, partially offset by factors such as the lower delinquency rate in the overseas education loan segment and a defined underwriting process. The Student Loan - International (SLI) segment has consistently maintained a low Gross NPA of 0.07% as of September 30, 2024. The segment's asset quality risk is further mitigated by a higher provision coverage ratio (PCR) of 83%. The overall Gross NPA ratio was 0.24% and PCR of 78% as of 30 September 2024.

The company's underwriting model comprehensively covers student-centric factors, including employability prospects, the nature of courses, and the reputation of colleges and universities, among others, which ultimately enhances the objectivity of the proposals. Moreover, this specialized underwriting approach is based on data analytics. Going forward, the company plans to use its own Artificial Intelligence - Machine Language (AI-ML)-enabled proprietary model to assist the collections team by predicting the likelihood of defaults, leading to consistent collection efficiency.

The Company's unsecured to secured book was in the ratio of 76:24 and has been inclining towards the unsecured book over the last few years. The Company's asset quality is maintained with the gross stage 3 ratios below 1% till 30 Sep 2024. With the seasoning of the loan portfolio, the asset quality movement shall remain monitorable. The ability of the students to acquire jobs, specifically in the three foreign countries viz. The US, UK, and Canada shall remain monitorable. However, the company's underwriting process ensures better recoveries as they consider parents as the co-obligants. While the portfolio is classified in line with the regulatory requirements, the company's internal processes and systems monitor the ability of its borrowers to service the loans on a timely basis. Having said so, the maturity of the loan portfolio vis a vis the collections shall be monitorable over the medium term.

### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

To arrive at its ratings, BWR has evaluated AFSL's risk profile on a standalone basis. BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

### **RATING SENSITIVITIES**

#### **Positive:**

- Ability to further scale up the operations while maintaining the asset quality of the portfolio.
- Diversification of the portfolio decreases the dependency on the core business segment.

#### **Negative**

- Deterioration in the asset quality having Gross NPA increased above 3%.

### **LIQUIDITY INDICATORS - Adequate**

The company's LCR as of 30 Sep 2024 stood at 236%, against the regulatory requirement of 100%. Moreover, the company has a total debt of Rs. 12,554 crores as of 30 Sep 2024, at an average cost of borrowing of 9.4%. Moreover, the company has liquid assets of Rs. 1,950 crores as of 30 Sep 2024, including cash, undrawn sanctions, and other liquid investments.



## COMPANY PROFILE

Avanse Financial Services Limited (AFSL) was initially formed in August 1992 and was known as Abhivruddhi Holdings Private Limited (AHPL). Dewan Housing Finance Corporation Limited (DHFL) (80%) and International Finance Corporation (IFC) (20%) bought a 100% stake in AHPL in July 2012 and changed the company's name to Avanse Financial Services Private Limited (AFSPL) and commenced education loan business from January 2013. In March 2019, as part of the strategic decision, the existing promoters divested their entire stake in the company to M/s. Olive Vine Investment Limited, an affiliate of the Warburg Pincus.

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.

The company has established its presence in financing overseas students and is also diversifying into other segments of education financing, including loans to educational institutions and students pursuing courses through edutech platforms.

## KEY FINANCIAL INDICATORS

Particulars	Units	FY-22 (Audited)	FY-23 (Audited)	FY24 (Audited)	H1FY25 (Unaudited And Reported)
AUM	Rs in Crs.	4835.61	8646.07	13303.05	17062
Total Income	Rs in Crs.	509	990	1,729	1,074
PAT	Rs in Crs.	63.21	157.71	342.40	242.21
Net worth	Rs in Crs.	1010	2150	3677	3,913
Gearing	Times	4.06	3.35	2.76	3.27
CRAR	%	22.96	24.86	27.52	22.86%
GNPA	%	1.29	0.56	0.43	0.24
NNPA	%	0.53	0.17	0.13	0.05

## NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY

No outstanding non-cooperation rating with other Credit Rating Agencies.



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

Instrument	Current Rating (2025)			Rating History for the past 3 years				
	Type	Amt. Rs Crs	Rating	Amt. 2024 (Rs. Crs.)	2024 (Jan. 15, 2024)	2023 (-)	Amt. 2022 (Rs. Crs.)	2022 (Oct. 27, 2022)
Secured NCD	Long Term	40.00	BWR AA-/Stable (Reaffirmed)	40.00	BWR AA-/Stable (Upgrade with revision in outlook from Positive to Stable)	Not Rated	50.00	BWR A+/Positive (Reaffirmed with revision in outlook from Stable to Positive)
Unsecured Subordinated NCD		50.00		75.00			75.00	
Proposed NCD		-	-	-	-	Not Rated	-	Withdrawn on account of non-utilization
<b>Total</b>		<b>90.00</b>	<b>INR Ninety Crores Only</b>					

**Hyperlink/Reference to applicable Criteria**

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

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**Avanse Financial Services Limited**

**ANNEXURE I  
Details of Bank Loan Facilities rated by BWR:**

Lender	Facility	Long Term	Short Term	Total	Complexity of the Instrument
Nil	Nil	Nil	Nil	Nil	Nil

**ANNEXURE II  
INSTRUMENT (NCD) DETAILS:**

Instruments / Series	Issue Date	Amount last rated (Rs. Cr)	Amount O/s (Rs. Cr)	Tenor	Coupon Rate p.a.	Frequency	Maturity Date	ISIN No.	Complexity	
NCD 001	31-Jul-2015	25.00	25.00	10 years	10.10%	Annually	31-Jul-25	INE087P07022	Simple	
NCD 003	7-Aug-2015	15.00	15.00	10 years	10.10%	Annually	7-Aug-25	INE087P07048	Simple	
Sub Debt Series 1	16-Mar-2016	25.00	0.00	8 years	10.50%	Annually	16-Mar-24	INE087P08012	Complex	
Sub Debt Series 2	30-June-2017	25.00	25.00	10 years	9.50%	Annually	30-Jun-27	INE087P08020	Complex	
Sub Debt Series 3	27-Dec-2017	25.00	25.00	10 years	9.35%	Annually	27-Dec-27	INE087P08038	Complex	
<b>Total</b>		<b>115.00</b>	<b>90.00</b>	<b>Rupees Ninety Crores Only</b>						

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**ANNEXURE III  
List of entities consolidated:**

Name of the Entity	% of Ownership	Extent of Consolidation	Rationale for Consolidation
Nil	Nil	Nil	Nil



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