Avendus
Next is the only level

February 07, 2023

BSE Ltd
General Manager
Department of Corporate Services
Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai 400 001

Scrip Code: 959645, 959884, 960085, 960488, 973080, 973281, 973375, 973644 & 973771

Sub: Intimation of credit rating pursuant to Regulation 51(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir,

Pursuant to Regulation 51(2) read along with Part B of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform you that CARE Ratings Limited by its letter dated February 07, 2023 have reaffirmed the existing ratings of the Company.

We enclose herewith a copy of the Credit Rating Letter and Rating Rationale issued by CARE Ratings Limited.

Request you to take the above information on record.

Yours faithfully,

For Avendus Finance Pvt. Ltd.

Rajendra Singh Rana
Digitally signed by Rajendra Singh Rana
Date: 2023.02.07 22:23:38 +05'30'

Rajendra Rana
Authorised Signatory

Encl: As above

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Avendus Finance Private Limited

February 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating of Avendus Finance Private Limited (AFPL) continues to derive strength from strong promoter experience in investment banking space across diverse sectors, AFPL's strategic importance to the parent, Avendus Capital Private Limited (ACPL), comfortable capitalization and adequate liquidity profile.

The above rating strengths are partially offset by AFPL's limited track record of lending operations in the inherently riskier asset class of structured lending, however at the same time there is a reasonable churn of book as reflected by high collection history and deep understanding of the businesses and sectors. The rating also takes note that while the gross non-performing assets (GNPAs) were nil as on September 30, 2022, some of the borrowers are facing challenges are in Stage 2.

AFPL's ability to profitably navigate its growth path, while maintaining asset quality at low levels and its continued strategic importance to the Avendus group shall remain to be important credit monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Not applicable since rating is A1+.

Negative factors

- Weakening of linkages with the Avendus group.
- Deterioration in the credit profile of the Avendus group.
- Deterioration in the asset quality with GNPA > 3%, on a sustained basis.
- Increase in leverage levels beyond 3x.

Analytical approach: Standalone

CARE Ratings Limited (CARE Ratings) has adopted the standalone approach for analysing AFPL factoring in linkages with parent, ACPL.

Key strengths

AFPL, being the sole lending entity in the group is strategically important to ACPL:

AFPL is strategically important to the Avendus group as it is the sole lending entity of the group, which provides bespoke credit solutions like corporate finance, structured debt finance etc to mid-market corporates. Strong relationships of the promoters and their understanding of business dynamics of mid-corporates support the lending business. AFPL while entering into deals also takes help of sectoral and advisory expertise of the group. Hence, there is strong operational linkage between the two companies. Furthermore, AFPL enjoys support from the group in the form of board-level representation, shared brand name, and integrated business platform.

Comfortable capitalization profile and conservative gearing policy:

As on September 30, 2022, the capitalization levels of AFPL stood comfortable with capital adequacy ratio (CAR) at 46.88% (as on March 31, 2022: 41.89%) and Tier 1 capital at 45.79% (as on March 31, 2022: 40.64%), well above the regulatory requirement of 15.00% and 10.00%, respectively. Furthermore, the company reported healthy capital structure with tangible net worth (TNW) and gearing of ₹726.39 crore and 1.19 times, respectively as on September 30, 2022.

AFPL has a conservative gearing policy, and the management intends to keep gearing below 2.5 times over the medium term. The company believes that the current level of capitalization is adequate to fund its growth targets.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key weaknesses

Limited track record in lending operations:

While the investment banking business has been ACPL's forte for decades, AFPL has a limited track record as it commenced its lending operations with structured finance in FY17. The loans provided under this segment are huge with ticket size ranging from ₹15 crore to ₹90 crore. As the company is selective in doing lending transactions and operates in niche segment of structured finance, AUM growth for the structured finance segment has been constrained and the size is moderate at ₹1089 crore as on September 30, 2022 (as on March 31, 2022: Rs.1007 crore). Growth also appears low due to prepayments happening in the portfolio. The company has started providing loans against shares to majorly to the existing and prospective clients of Avendus Wealth Management Private Limited in FY21. This segment is in the nascent stage with an AUM size of ₹241 crore as on September 30, 2022 (as on March 31, 2022: ₹263 crore). Since inception, AFPL has cumulatively disbursed loans to the tune of ₹3,734 crore (approximately) and received prepayments of ₹1,864 crore (approximately) as on September 30, 2022 which demonstrates good credit profit of AFPL.

CARE Ratings believes that profitability and asset quality of the company with increase in operations and further seasoning of portfolio will remain a monitorable in the near term.

Moderate asset quality:

AFPL operates in an inherently riskier asset class, which is structured finance lending to mid-market corporate entities. Also, majority of the borrowers are unlisted entities. The mid-corporate borrower segment is more susceptible to economic cycles and hence carries a higher credit risk. To mitigate this risk, AFPL adopts a highly selective and conservative underwriting policy. It also leverages on the Avendus group's advisory/corporate finance expertise to understand investment thesis of the client's business, which helps in further fine tuning the financing structure. Furthermore, CARE Ratings understands from the management that significant proportion of the portfolio has security cover of 2-3 times in form of pledge of promoter shares and in a few cases have hard collateral.

Gross non-performing assets (GNPAs) stood at 4.11% and net non-performing assets (NNPAs) stood at 0.25% as on March 31, 2022, as one of its exposures had slipped in to NPA. However, during H1FY23, AFPL has written off this deal amounting to ₹52 crore. Following this, the GNPAs were nil as on September 30, 2022. AFPL has restructured three of its borrowers (out of which two loans were FVTPL and one loan was at amortised cost) with an outstanding amount of ₹155 crore under RBI's one-time restructuring 1.0 and 2.0 scheme. Currently, entire loan book is in Stage 1 except for these three accounts.

CARE Ratings believe that ability to manage asset quality and maintain healthy collections, and profitably scale up the business, will remain a key rating monitorable.

High dependence of group's business on capital market:

The capital market businesses of the group remain vulnerable to the cyclicality in the economy. However, the group performed well in FY22 in investment banking, owing to its advisory fees-based business model and strong client relationships. The investment banking division reported revenue of ₹965 crore in FY22, up from ₹407 crore in FY21. However, the group had to take a ₹152 crore hit due to the impairment of intangible assets created through the acquisition of Ocean Dial Asset Management Ltd. Despite this, the group's net profit rose to ₹162 crore in FY22 from ₹80 crore in FY21.

The group's plan is to increase its lending business share. CARE Ratings believes that in the long-run increase in the lending business will reduce group's reliance on capital market-related businesses.

High concentration risk with top 10 borrowers constituting around 50% of AUM:

AFPL's borrowers base is concentrated with top 10 clients constituting around 54.92% of the AUM and 100.56% of the tangible net worth as on September 30, 2022. However, these exposures cater to a diverse range of sectors and the company does a thorough due diligence before sanctioning any loan. The credit quality of the portfolio and investment in diverse sectors will remain a key monitorable.

Liquidity: Adequate

AFPL has a well-managed ALM with no negative cumulative mismatch witnessed in any of time bucket as on September 30, 2022. This is majorly on account of high amount of liquidity available, in the form of cash and investments amounting to ₹225.72 crore, and lower scheduled repayments. For the next one year, AFPL has cash inflows arising out of the loan repayments to the tune of around ₹662 crore and cash and cash equivalents of around ₹184 crore. Additionally, the company has undrawn bank lines to the tune of ₹25 crore. Against the inflows, AFPL has debt repayment of around ₹327 crore. Thus, AFPL has adequate resources to service its debt obligations in the short term.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Non Banking Financial Companies

About the company

The Avendus group
The Avendus group, promoted by Ranu Vohra, Kaushal Aggarwal and Gaurav Deepak, started operations in 1999, through its flagship company ACPL. With a focus on creating products specifically for high quality mid-market businesses, ACPL initially started with investment banking and further expanded its presence, over the years via its subsidiaries, into wealth management, credit solutions and asset management to serve as an integrated solution platform. Avendus group has a well spread presence across 8 cities in India and has offices in London, Singapore & New York. The promoters have expertise in several sectors such as technology, consumer goods, healthcare, digital, and business process outsourcing and have successfully executed several investment banking transactions for over two decades. Over the years, the group has developed strong relationships with several corporates in the mid-market space.

AFPL
AFPL was originally incorporated on May 15, 1996 as Pacific Hire-Purchase Private Limited. The name of the company was changed to Pacific Hire-Purchase Limited on November 21, 1997. Pursuant to acquisition by Avendus Capital Private Limited, its name was changed to Avendus Finance Private Limited with effect from September 18, 2014. AFPL is a wholly owned subsidiary of ACPL and is a Systemically Important Non-Deposit Taking Non-Banking Financial Company (NBFC-ND-SI) registered with the RBI. The company's business was set up in FY17 with a focus on providing credit solutions such as promoter funding, corporate finance, structured debt solutions, acquisition finance and loans against shares to high-quality mid-market segment. As on September 30, 2022, AUM of the company is ₹1,330.14 crore.

Brief Financials of AFPL

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	168.41	202.83	112.60
PAT	20.16	25.05	29.33
Interest coverage (times)	1.41	1.42	1.85
Tangible total assets	1,441.16	1,681.45	1,602.55
Net NPA (%)	0.00	0.25	0.00
ROTA (%)	1.48	1.60	3.57

A: Audited; UA: Unaudited.

Status of non-cooperation with previous CRA:
None.

Any other information:
Not applicable.

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone) (Proposed)	-	-	-	-	100.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (09-Feb-22) 2)CARE A1+ (14-Jan-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated:

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in