

Press Release

Avendus Finance Private Limited

July 25, 2019



Rating Assigned

| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 200.00 Cr. |
| Long Term Rating | ACUITE AA-/ Outlook:Stable |

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE AA-**' (**read as ACUITE double A minus**) on the Rs.200.00 Cr. bank loan facilities of Avendus Finance Private Limited (AFPL; part of Avendus Group). The outlook is '**Stable**'.

About Avendus Group:

Avendus Group, promoted by Mr. Ranu Vohra, Mr. Kaushal Aggarwal and Mr. Gaurav Deepak, started operations in 1999, through its flagship company Avendus Capital Private Limited (ACPL). ACPL initially made a foray in investment banking and later diversified into wealth management. Gradually, it expanded its presence across other segments to become a diversified financial service provider. Apart from its investment banking and wealth management services, ACPL through its subsidiaries also diversified into management of Alternate Investment Funds and further started to provide credit solutions to mid-market borrowers since FY2016 through AFPL. Avendus group has a fairly well spread presence at eleven cities in India, Europe, United States and Singapore.

ACPL has been able to attract equity investments from Kohlberg Kravis Roberts (KKR) in 2016, to build a multi-asset financial services platform. KKR (through its Singapore based investment arm, Redpoint Investments Pte. Ltd) holds a majority stake of 65 percent in ACPL as on March 31, 2019.

About AFPL:

AFPL (erstwhile Pacific Hire Purchase Limited), is a Non-deposit taking systemically important NBFC and is a 100 percent subsidiary of ACPL. AFPL offers customised debt solutions such as promoter funding, corporate finance, structured debt solutions and acquisition finance to the mid-market segment. The company has started domestic trade finance business catering to ecosystem of mid-market companies in FY2019.

Avendus Finance Private Limited (AFPL), a wholly owned subsidiary of ACPL and the lending arm of the Group, commenced operations in 2016. It benefits from the strong track record of the promoters in investment banking (IB), healthy capitalisation, and a conservative lending policy. It also benefits from capital infusion by, and synergies with, global private equity firm, Kohlberg Kravis Roberts (KKR), which is a large shareholder of the group. However, the company is in an early stage in its lending cycle and is vulnerable to the inherent volatility in capital-market-related businesses.

Analytical approach:

Acuité has consolidated the business and financial risk profiles of ACPL, AFPL along with other 12 subsidiaries/associates of ACPL (Hereinafter referred to as 'Avendus Group') for arriving at the rating. These subsidiaries represent Avendus Group's interest in AIFs, Investment banking and wealth management businesses. The consolidation is in view of common promoters and management, integrated businesses, shared brand name, and significant operational and financial linkages between these entities. Extent of consolidation: Full.

The following Subsidiaries and Associates of ACPL have been considered for consolidation:

| Sr. No. | Name of the company/ Firm | Relation with ACPL |
|---------|---|--------------------|
| 1 | Avendus Finance Private Limited | Subsidiary |
| 2 | Avendus Wealth Management Private Limited | Subsidiary |
| 3 | Ocean Dial Asset Management India Private Limited | Subsidiary |
| 4 | Avezo Advisors Private Limited | Associate |
| 5 | Avendus PE Investment Advisors Private Limited | Subsidiary |
| 6 | Avendus Capital Public Markets Alternate Strategies LLP | Subsidiary |
| 7 | Avendus Capital Alternate Strategies Private Limited | Subsidiary |
| 8 | Avendus Capital (UK) Private Limited (United Kingdom) | Subsidiary |
| 9 | Avendus Capital Pte. Ltd. (Singapore) | Subsidiary |
| 10 | Avendus Capital Inc.(USA) | Associate |
| 11 | Ocean Dial Asset Management Limited (United Kingdom) | Subsidiary |
| 12 | Avendus Capital Asset Management (UK) Limited | Subsidiary |
| 13 | Diligent Investment Advisors Limited (Mauritius) | Subsidiary |

Key Rating Drivers

Strengths

- Established presence in financial services supported by KKR ownership:**

ACPL's promoters have demonstrated their expertise in Investment Banking and have a deep knowledge backed by experience of over two decades in several sectors such as technology, consumer, healthcare, digital, IT and outsourcing. Also, the company has hired experienced professionals in the financing, wealth, and asset management businesses. Additionally, it benefits from the experience of eminent professionals on its board. The credit business is led by Mr. Sandeep Thapliyal (MD & CEO of AFPL), who has over 23 years of multi-functional experience in commercial banking, investment banking, corporate banking, project finance and asset reconstruction. In his vast career, he has been instrumental in guiding various businesses across various organisations on high-growth trajectory.

KKR, a global investor with Asset under management of \$199.5 billion as on March 31, 2019 (source: <https://www.kkr.com>), has acquired a majority stake (65% as on March 31, 2019) in ACPL through their Singapore based investment company Redpoint Investment Pte Limited. Besides the support by way of equity infusion, Avendus Group also benefits from its association with KKR. KKR has board representation in the group and Avendus benefits from KKR's oversight and expertise across various sectors, global insights and products, international practices and KKR's wide network of relationships.

Avendus Group has been associated with leading e-commerce players and was engaged in over 125 M & A transactions, 147 PE transactions and 67 cross border transactions since inception. The Group has an AUM of \$3.9 billion in wealth management as on March 31, 2019 and also manages four AIFs with overall AUM of \$ 1.5 billion as on March 31, 2019. The Group operates through an employee base of 333 employees as on March 31, 2019.

AFPL, the NBFC arm of the Group, has built a loan book of Rs. 898 Cr. as on March 31, 2019, primarily in mid-market segment offering structured finance and domestic trade finance. The Group has received equity funds through marquee investors such as KKR and Gaja Capital. AFPL plans to maintain a gearing of upto 3.5 times.

Acuité believes that Avendus Group's business profile will benefit from its established presence in financial services, synergies across its various verticals, expertise of its top management and the support of marquee investors like KKR.

- Significant synergies across various product offerings; diversified revenue profile from a range of fee based and fund based services:**

Avendus Group has established itself as one of the leading player in investment banking and wealth management. The Group has been instrumental in supporting various corporates in their fund raising initiatives by virtue of their established presence in the Investment Banking activity since 1999. As a natural corollary to its fee based Investment Banking activity, the Group commenced its NBFC operations through AFPL to meet the financing requirements of its clients.

Though generally sector agnostic, AFPL focuses on providing bespoke financing solutions to companies in industrials, healthcare, consumer and digital segments. The company follows stringent underwriting and undertakes detailed due diligence including financial audits and legal diligence before taking credit decisions. The company has also started to take short term exposures through domestic trade finance business to augment the working capital needs of mid-market players.

The Group's philosophy is based on leveraging client relationships to explore cross selling opportunities across various verticals and exploiting the synergies within the various Group entities. AFPL also co-writes part of the exposures initiated by the group's Alternate structured fund -1. Such arrangements are reflective of the synergies within the various verticals.

Acuité believes that the Group will benefit from its established business model and the ability to offer a wide range of fee based services and fund based solutions to its clients.

Weaknesses

- **Susceptibility of performance to the economic activity and risks inherent in wholesale lending; Limited track record in lending operations:**

Avendus Group's revenues from investment banking are primarily linked to the level of activity in the financial markets, such as M & A, PE buyouts, Fresh issuance of securities. Any slowdown in the no. of deals and level of activities in the markets will in turn impinge on the operating performance of the investment banking revenues.

As regards the financing business of the Group, AFPL commenced its lending operations in 2016 and has been primarily focused on wholesale lending segment. The company offers structured credit solutions, the key offerings are promoter funding, corporate finance, structured debt solutions and acquisition finance. The loans are relatively chunkier in nature with an average ticket size of Rs. 40 Cr. and above for a tenure ranging 3 to 4 years. The company had overall loan book of Rs. 898 Cr. as on March 31, 2019 (Previous year: Rs. 610 Cr.) across 29 borrowers.

Most of the borrowers are unlisted entities and hence a high degree of due diligence is necessary before initiating any fresh exposure. In addition to the stringent underwriting practices, the monitoring of the portfolio on an ongoing basis is also critical. Any slippages in performance has to be identified in a timely manner and corrective action has to be initiated. The performance of the borrowers is subject to various factors such as demand supply dynamics, competitive landscape, technology changes, and regulatory interventions among others.

AFPL's performance in the lending segment is linked to the credit profiles of its borrowers. AFPL has been selective in its underwriting however, collateral events such as deterioration in credit quality of borrowers and decline in security prices can impact its performance with regard to its asset quality and earnings profile. Further, AFPL has a limited track record of lending operations since most of the exposures have been initiated over past three years i.e. FY2017-FY2019. While the asset quality is comfortable at this point in time, the ability of AFPL to continue to maintain the same while scaling up the loan book across the cycle is yet to be demonstrated.

Acuite believes that the performance of Avendus Group will be influenced by the level of activity in the market and performance of the wholesale lending segment.

Liquidity Position:

AFPL has adequate liquidity position with no cumulative mismatches in any of the time buckets upto 5 years. Going forward with increasing dependence on external borrowings to scale up its operations, the company's liquidity profile will depend on its ability to raise external debt in tandem with the tenure of loans extended by AFPL. As on March 31, 2019, the tenure of company's o/s borrowings range between 4 to 5 years and the loans are extended for a tenure of 3 to 4 years, resulting in a healthy asset liability match. Besides long term funds, the company resorts to short term borrowings from banks and through commercial Papers. AFPL has working capital lines of Rs. 25.00 Cr. which remained largely unutilised in FY2019.

The company has demonstrated ability to raise funds through commercial paper in case of any short

term funding requirement by a borrower. Further, the company maintains excess liquidity in the form of FDs or liquid NCDs/ MFs which can be liquidated in case of any unanticipated business needs. AFPL had investments in liquid debentures and MFs amounting to Rs.184.00 Cr. as on March 31,2019.

Outlook: Stable

Acuité believes that Avendus Group will maintain a 'Stable' credit profile on the back of its established presence in financial services segment and continuing support from its majority investor, KKR. The outlook may be revised to 'Positive' in case of significant growth in scale of operations and profitability while maintaining asset quality and capitalisation levels. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in its asset quality or if the Group faces headwinds in scaling up its operations or if there is any significant change in the ownership pattern.

ACPL - Key Financials (Consolidated)

| | Unit | FY19 (INDAS- Provisional) | FY2018 (INDAS - Provisional) | FY18 (IGAAP- Audited) | FY17 (IGAAP- Audited) |
|--|---------|---------------------------------|------------------------------------|-----------------------------|-----------------------------|
| Total Assets | Rs. Cr. | 1882.8 | 1403.3 | 1403.3 | 674.1 |
| Total Income* | Rs. Cr. | 566.6 | 344.0 | 344.0 | 200.3 |
| PAT | Rs. Cr. | 51.4 | 19.3 | 49.3 | 6.5 |
| Net Worth | Rs. Cr. | 1028.2 | 928.6 | 964.9 | 613.5 |
| Return on Average Assets (RoAA) | (%) | 3.1 | 1.9 | 4.7 | 1.2 |
| Return on Average Net Worth(RoNW) | (%) | 5.2 | 2.5 | 6.2 | 1.3 |
| Total Debt/Tangible Net Worth(Gearing) | Times | 0.5 | 0.2 | 0.2 | 0.0 |
| Gross NPA | (%) | NA | NA | NA | NA |
| Net NPA | (%) | NA | NA | NA | NA |

* Total income equals to Net interest income plus other income

AFPL - Key Financials (Standalone)

| | Unit | FY19 (INDAS - Audited) | FY18 (INDAS- Unaudited) | FY18 (IGAAP- Audited) | FY17 (IGAAP- Audited) |
|--|---------|------------------------------|-------------------------------|-----------------------------|-----------------------------|
| Total Assets | Rs. Cr. | 1102.6 | 716.8 | 716.9 | 244.2 |
| Total Income* | Rs. Cr. | 117.9 | 56.5 | 56.6 | 15.7 |
| PAT | Rs. Cr. | 55.4 | 24.0 | 22.8 | 2.5 |
| Net Worth | Rs. Cr. | 635.1 | 575.8 | 573.8 | 237.4 |
| Return on Average Assets (RoAA) | (%) | 6.1 | 5.0 | 4.7 | 1.8 |
| Return on Average Net Worth(RoNW) | (%) | 9.1 | 5.9 | 5.6 | 1.8 |
| Total Debt/Tangible Net Worth(Gearing) | Times | 0.7 | 0.2 | 0.2 | 0.0 |
| Gross NPA | % | 0 | 0 | 0 | 0 |
| Net NPA | % | 0 | 0 | 0 | 0 |

* Total income equals to Net interest income plus other income

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Rating of Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Consolidation of companies: <https://www.acuite.in/view-rating-criteria-22.htm>
- Default Recognition -<https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not applicable

***Annexure – Details of instruments rated**

| ISIN | Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------|------------------------|------------------|-------------|---------------|-----------------------------|------------------------------|
| - | Term Loan | NA | NA | NA | 50.00 | ACUITE AA-/Stable (Assigned) |
| - | Proposed Term Loan | NA | NA | NA | 150.00 | ACUITE AA-/Stable (Assigned) |

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About Acuité Ratings & Research:

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