

Press Release

Avendus Finance Private Limited

June 01, 2021

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE AA-**' (**read as ACUITE double A minus**) on the Rs. 200.00 Cr. Bank Facilities of Avendus Finance Private Limited (AFPL). The outlook is '**Stable**'.

The rating factors in the well diversified products offerings and established presence of the Avendus group in the domain of Investment Banking, Asset Management, Wealth Management and Credit Solutions supported by strong and experienced management. The rating also derives comfort from the association with global private equity firm, Kohlberg Kravis Roberts (KKR) which holds 64.42 percent in the holding company Avendus Capital Private 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. With a consolidated net worth of Rs 1117.27 Cr. and gearing of 0.60 times as on December 31 2020 (provisional), the group has healthy capitalization levels and is adequately positioned to support the growth of its businesses. The rating also takes into consideration, that despite the economic disruption, AFPL reported nil gross non-performing assets as on March 31, 2021 (provisional) on the loan book of Rs. 1197.63 Cr.

The rating is however constrained by weak, though improving, revenues and profitability of some business units. On a consolidated level, the earning profile of the Group is susceptible to volatility since a significant portion of its revenues is dependent on capital market conditions. While the gross non-performing assets are reported as nil as on March 31, 2021 (provisional), the company is exposed to headwinds given the current pandemic scenario and wholesale nature of its portfolio with average ticket size of 40 Cr.-50 Cr. Going forward, the Group's ability to improve business and profitability at various business units and manage asset quality and maintain healthy collections will remain key monitorables.

About the 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 seven 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 Red point Investments Pte. Ltd) holds a majority stake of 64.42 percent in ACPL as on March 31, 2021.

About the AFPL

AFPL (erstwhile Pacific Hire Purchase Limited), is a Non-deposit taking NBFC and is a 100 percent subsidiary of ACPL. AFPL offers customised debt solutions such as promoter funding, corporate finance, structured debt solutions, loan against securities and acquisition finance to the mid-market segment.

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 subsidiaries/associates of ACPL (Hereinafter referred to as 'Avendus Group') for arriving at the rating. 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

Key Rating Drivers

Strengths

- **Established presence in financial services and Group Linkages:**

ACPL's promoters have demonstrated expertise in Investment Banking and experience of over two decades in focus areas 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. Kaushal Aggarwal (MD & CEO of AFPL), who has over 22 years of global experience in financial services, he has been instrumental in creating the investment banking business for the firm.

The Group derives benefits from capital infusion by, and synergies with, global private equity firm, Kohlberg Kravis Roberts (KKR) which holds 64.42 percent in the holding company Avendus Capital Private Limited through their Singapore based investment company Redpoint Investment Pte Limited, contributing to the growth in the overall business volume. 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.

AFPL, the NBFC arm of the Group, has built a loan book of Rs. 1197.63 Cr. as on March 31, 2021 (provisional) primarily in mid-market segment offering structured finance and Loan against securities.

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

- **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 financing solutions to companies in industrials, healthcare, consumer, digital and technology segments, which have been the key focus areas. The company follows stringent underwriting and undertakes detailed due diligence including financials audits and legal diligence before taking credit decisions.

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.

- **Comfortable capitalization levels and resource raising ability:**

With a consolidated net worth of Rs 1,117.27 Cr. (reported) as on December 31, 2020 (provisional), the group is adequately positioned to support the growth of its new businesses over the medium term. Most of the capital requirement will be in the lending business in AFPL, as other businesses including Investment Banking are fee-based. The gearing policy is conservative for the lending business (AFPL) (0.86 times as on December 31, 2020) and at the group level (0.60 times as on December 31, 2020). Also, the company has a flexibility to raise capital given its predominant experience in Investment Banking.

Acuité believes that the company will benefit from the Group's ability to raise resources and maintain healthy capitalization at all levels.

- **Financial performance**

At Consolidated level, ACPL reported PAT of Rs 25.60 Cr. as on December 31, 2020 (provisional) as against Rs 11.76 crore as on March 31, 2020. For FY2020, the PAT declined primarily due to low fee based income, investments to build out asset and wealth management business as one-time expenses and IND AS accounting. However, the ACPL is scaling up its lending business as well as asset and wealth management business. Hence with the pickup and Investment Banking being the highest contributor to the revenue, the consolidated profits have improved. Annualized ROAA as on December 31, 2020 (provisional) improved to 1.67 percent as against 0.61 percent as on March 31, 2020.

On standalone basis, AFPL reported PAT of Rs 34.43 Cr. as on December 31, 2020 (provisional) as against Rs 41.97 crore as on March 31, 2020. The company's conservative lending policy and the additional provisioning considering the COVID scenario, has impacted the profits marginally. The annualized Net Interest Margin (NIM) as on December 31, 2020 (provisional) declined to 7.84 percent (8.47 percent as on March 31, 2020) due to lower disbursements. Annualized Return on Average Assets (ROAA) remains stable at 3.53 percent as on December 31, 2020 (provisional).

Acuité believes that the earning profile of Avendus Group from the non-fund based business operations would remain susceptible to inherent risks in capital market and overall economic environment, while its fund based business operations would continue to drive the group's future growth trajectory.

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 number 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, loan against securities and acquisition finance. The loans are relatively wholesale in nature with an average ticket size of Rs. 40 Cr-50 Cr. and above for a tenure ranging 3 to 5 years. The company had overall loan book of Rs. 1197.63 Cr. as on March 31, 2021 (provisional) (Previous year: Rs. 1077 Cr.) across 32 borrowers.

While the Gross Non-performing assets as on March 31, 2021 (provisional) are Nil, the company is exposed to headwinds given the current pandemic scenario and the nature of its portfolio.

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: Adequate

AFPL has a healthy liquidity position with no cumulative mismatches as per ALM dated March 31, 2021. 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 reported cash and cash equivalent of Rs 186.42 Cr. as on December 31, 2020 (provisional), constituting 14.12 percent of the Total assets.

Rating Sensitivity

- Dilution in parent shareholding and support
- Deterioration in Asset Quality
- Scale of operations
- Deterioration in profitability and Liquidity

Material Covenants

None

Outlook: Stable

Acuite 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 capitalization 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.

About the Rated Entity - Key Financials

ACPL- Key Financials (Consolidated)

Particulars	Unit	FY20 Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	2029.21	1848.14
Total Income*	Rs. Cr.	493.05	581.73
PAT	Rs. Cr.	11.76	69.05
Net Worth	Rs. Cr.	1101.42	1050.10
Return on Average Assets (RoAA)	(%)	0.61	4.29
Return on Average Net Worth (RoNW)	(%)	1.09	6.89
Debt/Equity	Times	0.60	0.50
Gross NPA	(%)	NA	NA
Net NPA	(%)	NA	NA

*Total income equals to Net Interest Income plus other income.

AFPL- Key Financials (Standalone)

Particulars	Unit	FY20 Actual)	FY19 (Actual)
Total Assets	Rs. Cr.	1279.30	1102.64
Total Income*	Rs. Cr.	109.52	117.91
PAT	Rs. Cr.	41.97	55.37
Net Worth	Rs. Cr.	680.27	635.09
Return on Average Assets (RoAA)	(%)	3.52	6.09
Return on Average Net Worth (RoNW)	(%)	6.38	9.15
Debt/Equity	Times	0.85	0.69
Gross NPA	(%)	0	0
Net NPA	(%)	0	0

*Total income equals to Net Interest Income plus other income.

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

Not Applicable.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies- <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of the Facilities	Term	Amount (Rs Cr)	Ratings/Outlook
3-March-2020	Term loan	Long Term	50.00	ACUITE AA-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	150.00	ACUITE AA-/ Stable (Reaffirmed)
25-July-2019	Term loan	Long Term	50.00	ACUITE AA-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	150.00	ACUITE AA-/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs Cr.)	Ratings/Outlook
Term loan	11.01.2018	9.28%	28.02.2023	50.00	ACUITE AA-/ Stable (Reaffirmed)
Proposed Bank Facility	NA	NA	NA	150.00	ACUITE AA-/ Stable (Reaffirmed)

Annexure I

List of Subsidiaries of Avendus Capital Private Limited considered for consolidation

Sr No	Name of the entity	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 Market Alternate Strategies LLP	Subsidiary
7	Avendus Capital Alternate Strategies Private Limited	Subsidiary
8	Avendus Capital (UK) Private Limited	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

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About Acuité Ratings & Research:

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