

Press Release

Avendus Finance Private Limited

August 30, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE AA- Positive Reaffirmed Stable to Positive	-
Total Outstanding Quantum (Rs. Cr)	200.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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 revised to '**Positive**' from '**Stable**'.

The revision in outlook is on account of significant improvement in financial performance of Avendus Group as reflected through PAT levels of ~Rs. 176 Cr. for FY2022 (provisional) from ~Rs. 80 Cr. for FY2021. This is largely aided by the performance of the Investment Banking and Wealth Management divisions. The Investment Banking is one of the key business units of the group and is highest contributor to the company's revenue profile. The Group's Investment Banking division posted growth in revenues at ~137 percent during FY2022. The well-established presence of Avendus Group in the domain of Investment Banking benefitted them to capitalize on the surging interest of investors in digital/ tech-based solutions. Acuité expects that going forward the Investment Banking division would be able to sustain same level of business activity.

The rating continues to factor in the well diversified products offerings 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 continues to derives comfort from the association with global private equity firm, Kohlberg Kravis Roberts (KKR) which holds 64.34 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 their oversight and expertise across various sectors. With a consolidated net worth of Rs 1,325 Cr. and gearing of 0.77 times as on March 31, 2022 (provisional; excl. non-controlling interests), the group has healthy capitalization levels and is adequately positioned to support the growth of its businesses.

The rating is however constrained by subdued performance of Asset Management business and impairment losses to the tune of ~Rs. 150 Cr. for one of the business units. Acuité also takes note that the Group's NBFC division (AFPL) is exposed to headwinds given the wholesale nature of its portfolio and saw an increase in GNPA levels at 4.11 percent as on March 31, 2022 from Nil as on March 31, 2021. 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. 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 monitorable.

Acuité takes note of the announcement of acquisition of the Institutional Equities business of Spark Capital Advisors (India) Private Limited, which is subject to necessary regulatory approvals. Spark Capital Advisors is a Chennai based financial services entity offering Institutional Equities, Investment Banking, Structure Finance Advisory, Asset Management and Wealth Management services. The acquisition of the Institutional Equities business of Spark Capital Advisors is to be funded through the Avendus Groups' internal accruals, given the healthy capitalisation levels and liquid investments it is expected that the liquidity position of the group will not be impacted. Acuité believes that this acquisition will help Avendus Group in further diversifying their service offerings and improve the revenue profile.

About the company

AFPL (erstwhile Pacific Hire Purchase Limited), is a Non-deposit taking NBFC and is a 100 percent subsidiary of ACPL. AFPL offers customised credit 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.

About the 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 64.34 percent in ACPL as on March 31, 2022.

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

Strength

- **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 along with other founders 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 64.34 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. 1,500.20 Cr. as on June 30, 2022 and Rs. 1,338.57 Cr. as on March 31, 2022 (gross portfolio; as per Ind AS), 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 1,325 Cr. (provisional; excl. non-controlling interests) reported as on March 31, 2022, 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) (1.35 times as on March 31, 2022) and at the group level (0.77 times as on March 31, 2022). 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 health capitalization at all levels.

- **Financial performance**

At Consolidated level, ACPL reported PAT of Rs 176.09 Cr. as on March 31, 2022 (provisional) as against Rs 80.33 crore as on March 31, 2021. 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. ROAA as on March 31, 2022 (provisional) improved to 6.59 percent as against 3.69 percent as on March 31, 2021.

On standalone basis, AFPL reported PAT of Rs 25.05 Cr. as on March 31, 2022 as against Rs. 20.16 crore as on March 31, 2021. The Net Interest Margin (NIM) as on March 31, 2022 declined to 7.16 percent (7.36 percent as on March 31, 2021). Return on Average Assets (ROAA) stood at 1.60 percent as on March 31, 2022.

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.

Weakness

- **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. 1,338.57 Cr. as on March 31, 2022 (P.Y: Rs. 1,238.86 Cr.) across 36 borrowers. The Gross Non-performing assets as on March 31, 2022 stood at 4.11 percent as against Nil being reported as on March 31, 2021. Although the company reported NIL Net NPA in Q1FY 2023 on account of adequate provisioning of the GNPA, the company is still exposed to headwinds given 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.

ESG Factors Relevant for Rating

Avendus Group has a diversified revenue stream with a majority portion accruing from the financial services sector. Adoption and upkeep of strong business ethics is a sensitive material issue for the financial services business linked to capital markets to avoid fraud, insider trading and other anti-competitive behavior. Other important governance issues relevant for the industry include management and board compensation, board independence as well as diversity, shareholder rights and role of audit committee. As regards the social factors, product or service quality has high materiality so as to minimise misinformation about the products to the customers and reduce reputational risks. For the industry, retention, and development of skilled manpower along with equal opportunity for employees is crucial. While data security is highly relevant due to company's access to confidential client information, social initiatives such as enhancing financial literacy and improving financial inclusion are fairly important for the financial services sector. The material of environmental factors is low for this industry.

AFPL's board comprises a total of 7 directors out of which 2 are independent directors and includes a female director. Avendus Group maintains adequate disclosures with respect to the various board level committees mainly audit committee, nomination and remuneration committee along with stakeholder management committee. The Group also maintains adequate level of transparency with regards to business ethics issues like related party transactions, investors grievances, litigations, and regulatory penalties for the group, if relevant. In terms of its social impact, the group is actively engaged in community development programmes through its CSR committee.

Rating Sensitivity

- Dilution in parent shareholding and support
- Movement in profitability metrics
- Movement in asset quality
- Scale of operations

Material Covenants

None

Liquidity Position

Adequate

AFPL has a healthy liquidity position with no cumulative mismatches as per ALM statement dated March 31, 2022. 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 including liquid mutual funds of Rs 429.72 Cr. as on March 31, 2022.

Outlook: Positive

Acuité believes that the Avendus Group's credit profile will benefit from the economic revival and surging interest of investors in digital/ tech based solutions. The rating could be upgraded if the company is able to demonstrate a sustained improvement in its financial risk profile while maintaining capital structure, asset quality and profitability metrics at healthy levels. Conversely, the outlook may be revised to stable if the company faces higher than expected asset quality pressures or deterioration in profitability parameters.

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets*	Rs. Cr.	1681.62	1441.16
Total Income**	Rs. Cr.	120.37	103.05
PAT	Rs. Cr.	25.05	20.16
Net worth	Rs. Cr.	720.14	695.12
Return on Average Assets (RoAA)	(%)	1.60	1.48
Return on Net Worth (RoNW)	(%)	3.54	2.93
Total Debt/Tangible Net Worth (Gearing)	Times	1.35	1.09
Gross NPA's	(%)	4.11	-
Net NPA's	(%)	0.25	-

*Net of Deferred Tax Assets

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

Key Financials - Consolidated

Particulars	Unit	FY22 (Provisional)	FY21 (Actual)
Total Assets*	Rs. Cr.	3017.71	2327.83
Total Income**	Rs. Cr.	1297.58	625.49
PAT	Rs. Cr.	176.09	80.33
Net worth***	Rs. Cr.	1324.54	1135.02
Return on Average Assets (RoAA)	(%)	6.59	3.69

Return on Net Worth (RoNW)	(%)	14.32	7.34
Total Debt/Tangible Net Worth (Gearing)	Times	0.77	0.70
Gross NPA's	(%)	N.A.	N.A.
Net NPA's	(%)	N.A.	N.A.

*Net of Deferred Tax Assets

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

***Net Worth excludes non-controlling interests

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

Not Applicable

Any other information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Jun 2021	Proposed Bank Facility	Long Term	150.00	ACUITE AA- Stable (Reaffirmed)
	Term Loan	Long Term	50.00	ACUITE AA- Stable (Reaffirmed)
03 Mar 2020	Proposed Bank Facility	Long Term	150.00	ACUITE AA- Stable (Reaffirmed)
	Term Loan	Long Term	50.00	ACUITE AA- Stable (Reaffirmed)
25 Jul 2019	Proposed Term Loan	Long Term	150.00	ACUITE AA- Stable (Assigned)
	Term Loan	Long Term	50.00	ACUITE AA- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE AA- Positive Reaffirmed Stable to Positive
DCB Bank Limited	Not Applicable	Term Loan	11-01-2018	9.28	28-02-2023	50.00	ACUITE AA- Positive Reaffirmed Stable to Positive

Annexure 2 - List of subsidiaries of Avendus Capital Private Limited considered for consolidation

Sr. No.	Company	Relationship with ACPL
1	Avendus PE Investment Advisors Private Limited	Subsidiary
2	Avendus Wealth Management Private Limited	Subsidiary
3	Avendus Finance Private Limited	Subsidiary
4	Avendus Capital Alternate Strategies Private Limited	Subsidiary
5	Avendus Capital Public Markets Alternate Strategies LLP	Subsidiary
6	Ocean Dial Asset Management India Private Limited	Subsidiary
7	Avendus India ESG Fund	Subsidiary
8	Avendus Capital Inc.	Subsidiary
9	Avendus Capital (UK) Private Limited	Subsidiary
10	Diligent Investment Advisors Limited	Subsidiary
11	Ocean Dial Asset Management Limited	Subsidiary
12	Avendus Capital Asset Management (UK) Limited	Subsidiary
13	Avendus Singapore PTE Limited	Subsidiary
14	Zodius GF Pte. Limited	Subsidiary
15	Avendus India Select GP Pte Limited	Subsidiary
16	Avezo Advisors India Private Limited	Associate

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294041 mohit.jain@acuite.in Shreyans Mehta Assistant Manager-Rating Operations Tel: 022-49294065 shreyans.mehta@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.