Market Intelligence
& Analytics

CRISIL
An S&P Global Company

Industry report on assessment of education loans in India

June 2024

Contents

Macroeconomic Scenario

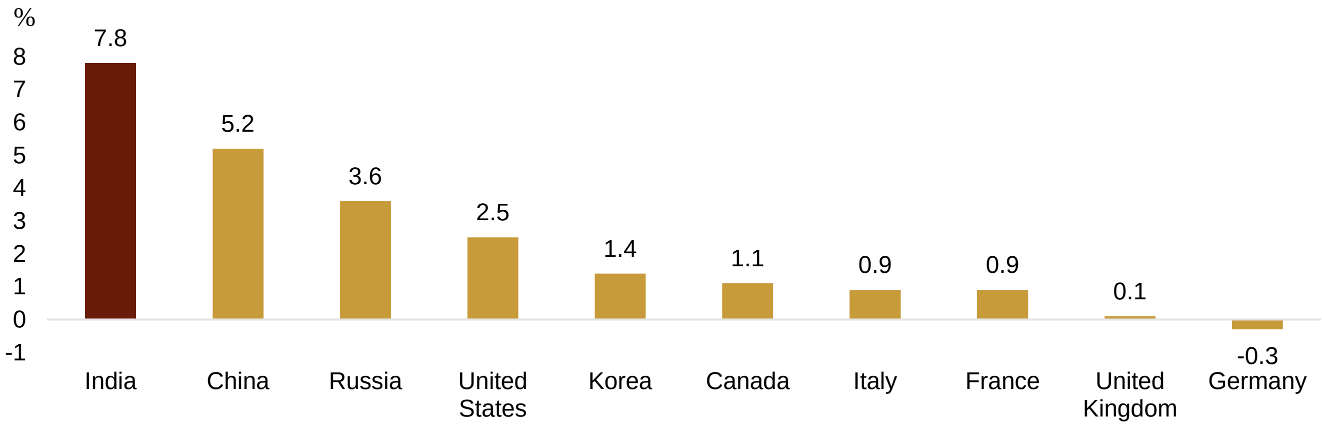
India witnesses stronger than expected growth in fiscal 2024

The Indian economy was among the fastest-growing in the world prior to onset of the Covid-19 pandemic[1]. In the years leading up to the global health crisis (Covid-19) which disrupted economic activities, India's economic indicators posted gradual improvements owing to strong local consumption and a lower reliance on global demand. The twin deficits, namely current account and fiscal deficits narrowed, while the growth-inflation mix showed a positive and sustainable trend.

Despite global geopolitical instability, India continues to maintain its position as one of the fastest-growing economies. In February 2024, the National Statistical Office (NSO) in its second advance estimates of national income, estimated the economic growth through real GDP growth to grow at of a robust 7.6% on-year basis in fiscal 2024. This can be attributed to factors such as demographic advantage, robust domestic demand, economic reforms, manufacturing and infrastructure development, technological advancements, and digital push.

In fact, The International Monetary Fund (IMF), in its April 2024 economic outlook update, revised its India economic growth estimate for India in real terms for fiscal 2024 to 7.8% from previous 6.7% estimate in January 2024 and 6.3% estimate in October 2023, citing momentum from resilient domestic demand. Further, the growth forecast for fiscal 2025 also witnessed an increase at to 6.8% from the previous 6.5% and 6.3% forecasts in January 2024 and October 2023 respectively. In contrast, global economic growth is projected to decelerate from an estimated 3.5% in 2022 to 3.2% in 2024, according to the IMF.

Real GDP growth rate (%) for major global economies (CY2023)



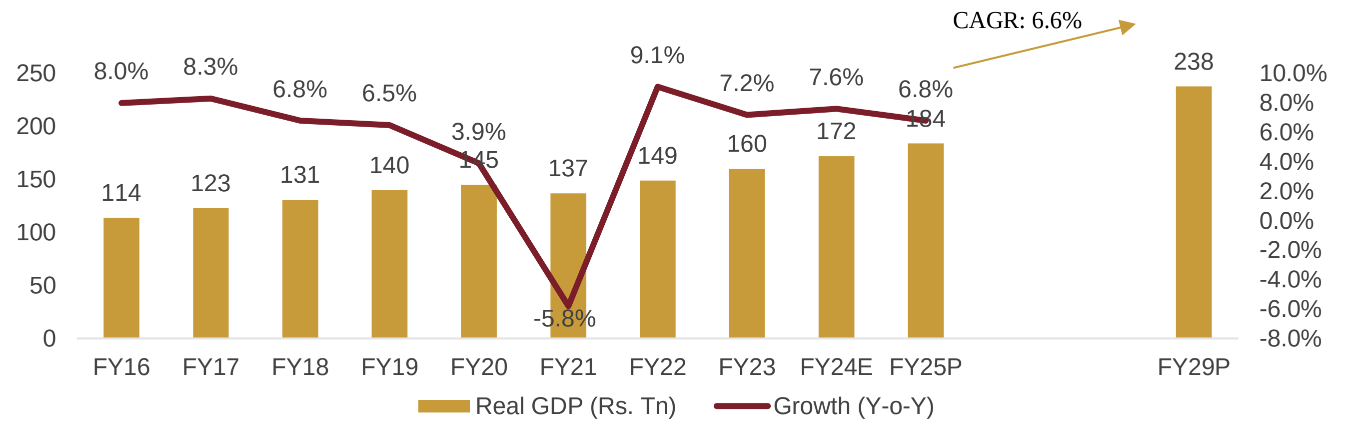
Note: For India, Real GDP growth rate is as of fiscal 2024; Source: IMF (World Economic Outlook - April 2024 update), CRISIL MI&A

India to remain one of the fastest growing major economies in the world

[1] *World Economic Outlook by International Monetary Fund (IMF) - April 2024 update*

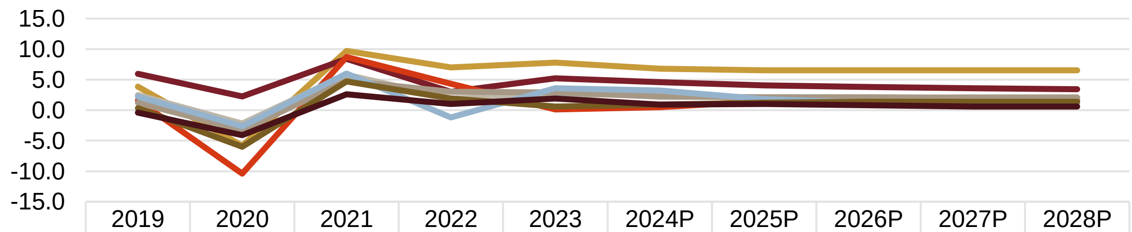
CRISIL MI&A expects India's economic growth in the next fiscal to be driven by a host of factors including budgetary support from the government, strengthening of domestic economic activities, improvement in household consumption, improved business sentiments, rising consumer confidence, healthy balance sheet of banks and corporates, and rising integration in global supply chain. The transmission of rate hikes by the RBI's Monetary Policy Committee ("(MPC) of the RBI between May 2022 and February 2023 continues and is likely to weigh in next fiscal. As per the MPC's MPC report, the real GDP growth in fiscal 2025 is expected to be 7.0%, led by recovery in rabi sowing, sustained profitability in manufacturing and underlying resilience of services. IMF projects India's growth at 6.8% in 2024 and 6.5% in 2025, reflecting resilience in domestic demand. Over the past three fiscals, Indian economy has outperformed global counterparts by witnessing a faster growth. Going forward as well, IMF projects that Indian economy will remain strong and would continue to be one of the fastest growing economies.

India's economy to grow at 6.8% in fiscal 2025



Note: E = Estimated, P = Projected; GDP growth is based on constant prices, GDP growth till FY23 is actuals. GDP Estimates for fiscals 2023-2024 is based on NSO Estimates and 2024-2025 is projected based on CRISIL MI&A estimates; and that for fiscals 2026-2029 based on IMF estimates; Source: NSO, CRISIL MI&A, IMF (World Economic Outlook – April 2024 update)

India is one of the fastest-growing major economies (Gross Domestic Product ("GDP") growth, % Y-o-Y)



	2019	2020	2021	2022	2023	2024P	2025P	2026P	2027P	2028P
India	3.9	-5.8	9.7	7.0	7.8	6.8	6.5	6.5	6.5	6.5
China	6.0	2.2	8.4	3.0	5.2	4.6	4.1	3.8	3.6	3.4
United Kingdom	1.6	-10.4	8.7	4.3	0.1	0.5	1.5	1.7	1.7	1.6
United States	2.5	-2.2	5.8	1.9	2.5	2.7	1.9	2.0	2.1	2.1
Brazil	1.2	-3.3	4.8	3.0	2.9	2.2	2.1	2.1	2.0	2.0
Russia	2.2	-2.7	6.0	-1.2	3.6	3.2	1.8	1.2	1.3	1.2
South Africa	0.3	-6.0	4.7	1.9	0.6	0.9	1.2	1.4	1.4	1.4
Japan	-0.4	-4.1	2.6	1.0	1.9	0.9	1.0	0.8	0.6	0.6

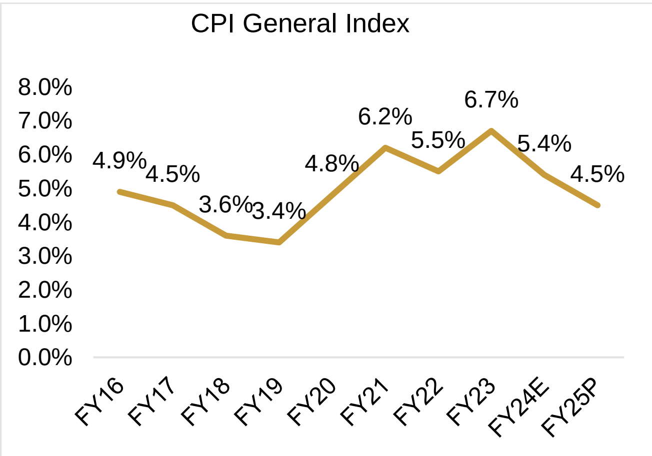
Note: All forecasts refer to IMF forecasts. GDP growth is based on constant prices, Data represented is for calendar years (except India where data is presented on a fiscal year basis, with FY 2019/20 (starting in April 2019) shown in the 2019 column and so on), P: Projected; Source: IMF (World Economic Outlook - April, 2024), CRISIL MI&A

Consumer Price Index inflation to average 4.5% in fiscal 2025

As per the RBI monetary policy meeting in April 2024, CPI inflation is projected at 4.5% for fiscal 2025. Further, CRISIL MI&A expects the CPI inflation for fiscal 2025 to average 4.5%. Cooling domestic demand, assumption of a normal monsoon along with a high base for food inflation should help moderate inflation in FY25. A non-inflationary budget that focusses on asset-creation rather than direct cash support also bodes well for core inflation. However, an unusual weather event, if at all, could reverse the easing. Similarly, recent developments in the Red Sea and a fading low base effect for commodity prices could put some upside pressure on core inflation and would need monitoring.

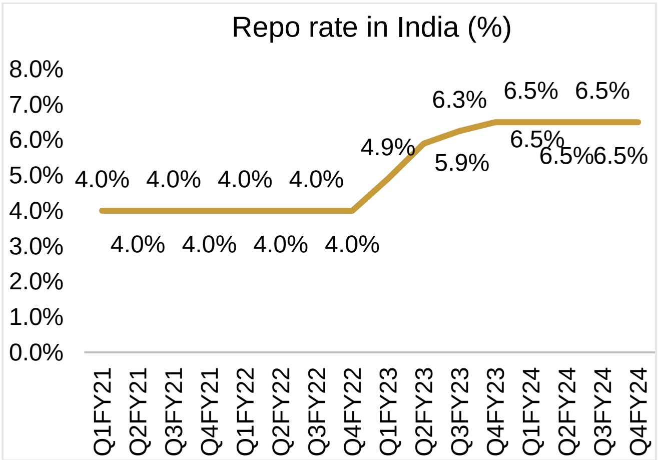
April 2024 started on a positive note with the Monetary Policy Committee (MPC) of the Reserve Bank of India staying put on repo rates during its April review meeting, signalling confidence in the country's economic growth for fiscal 2025. The MPC maintained the repo rate under its liquidity adjustment facility at 6.50% at its policy review meeting.

Inflation to moderate to 4.5% in fiscal 2025



E – Estimated; P – Projected; Source: CRISIL MI&A

Repo rate has remains unchanged, post aggressive hikes



Source: RBI, CRISIL MI&A

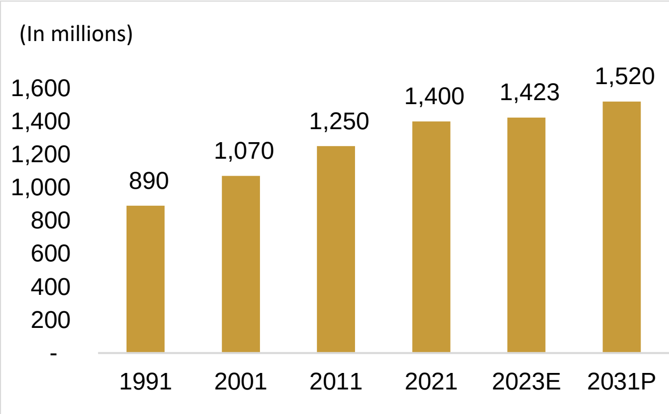
Key growth drivers

India has world's largest population

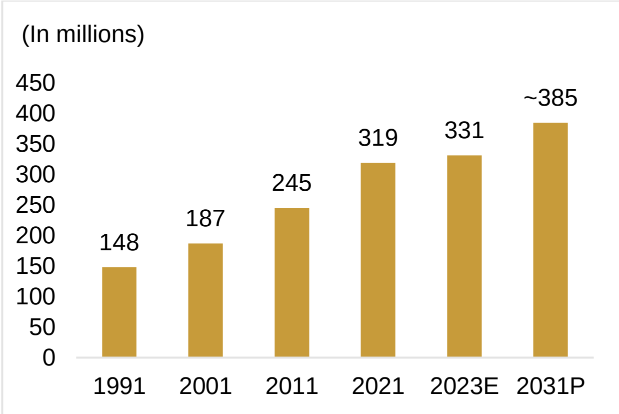
As per Census 2011, India's population was ~1.25 billion with ~245 million households. The population, which grew at nearly 1.5% CAGR between 2001 and 2011, is estimated to have increased at 1.1% CAGR between 2011 and 2021 to 1.40 billion, as per CRISIL MI&A. By 2031, the population is projected to reach 1.52 billion, with the number of households at ~385 million.

India's population growth trajectory

Number of households in India



Note: As at the end of each Fiscal. E: Estimated; P: Projected, Source: United Nations Department of Economic and Social Affairs, (https://population.un.org/wpp/) CRISIL MI&A

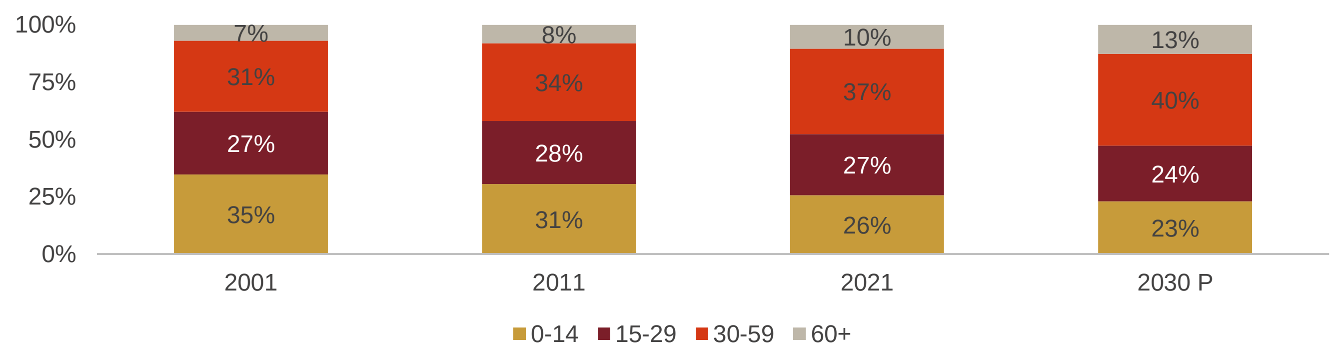


Note: As at the end of each Fiscal; E: Estimated; P: Projected, Source: Census India, CRISIL MI&A

Favourable demographics

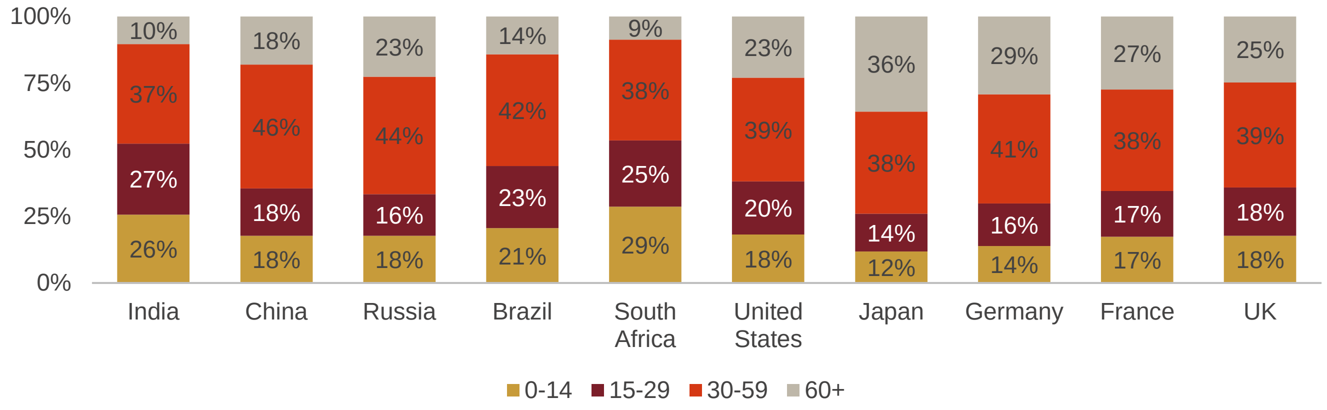
As of 2022, India has had one of the largest young populations in the world, with a median age of 28 years. CRISIL MI&A estimates that in 2021, ~90% of Indians were below the age of 60 in 2021 and that 63% of Indians were between the ages of 15 and 59 years. In comparison, in calendar year 2020, the United States (US), China and Brazil had 23%, 17% and 14%, respectively, of their populations above the age of 60, showing the ageing of population in other major economies countries.

India's demographic dividend



Note: P: Projected, 2001, 2011 and 2021 data from World Population Prospects (2022), 2025P and 2030P is projected by CRISIL MI&A; Source: United Nations Department of Economic and Social Affairs: World Population Prospects (2022), World Urbanization Prospects: The 2018 Revision (UN) (https://population.un.org/wup/), CRISIL MI&A

As of 2021, India has one of the highest proportions share of young population (Below the age of 30 years) among BRICS nations and large economies outside of the BRICS nations as of 2021

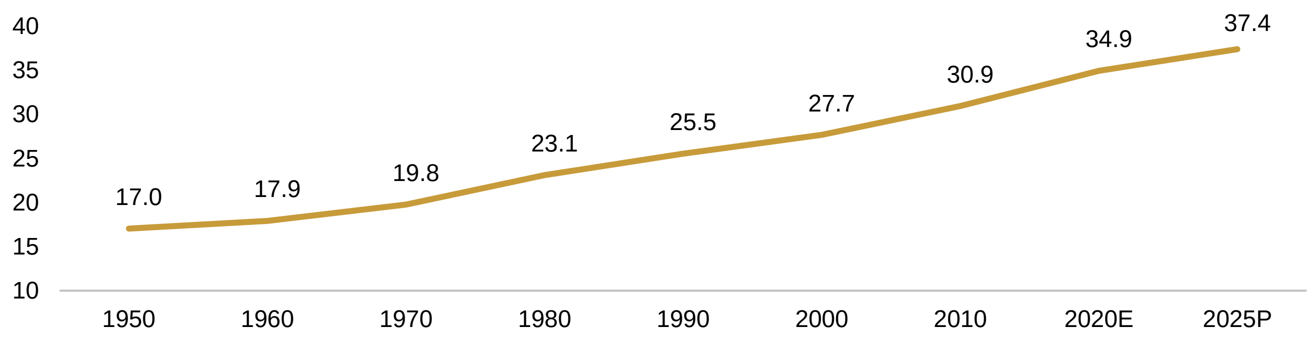


Source: United Nations Department of Economic and Social Affairs: World Population Prospects (2022), World Urbanization Prospects: The 2018 Revision (UN) (https://population.un.org/wup/), CRISIL MI&A

Urbanisation

Urbanisation, a key driver of economic growth driver, is expected to spur investments in infrastructure development, which, in turn, is expected to create jobs, develop modern consumer services and increase the ability to mobilise savings. India's urban population has been rising consistently over the decades. As per World Urbanization Prospects, the urban share of India's population increased from 17% of the total population in 1950 to 34.9% in 2018 (revised estimate) and is projected to increase to 37.4% by 2025. This is lower than the share of urban population in other developed nations such as the US, the UK, Australia and China. This shows that there is significant headroom for urbanisation in India to increase, which could aid in market for overall education market – including both domestic and overseas.

Urban population as a percentage of total population (%)

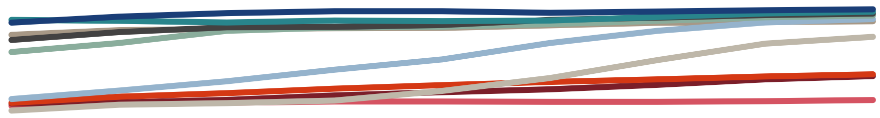


Note: E- Estimated, P – Projected; Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)[2]

Urban population as a percentage of global population %

[2] *https://population.un.org/wup/*

%



	1950	1960	1970	1980	1990	2000	2010	2020	2025P
Sri Lanka	15.3	16.4	17.6	18.6	18.5	18.4	18.2	18.7	19.6
India	17.0	17.9	19.8	23.1	25.5	27.7	30.9	34.9	37.4
Pakistan	17.5	22.1	24.8	28.1	30.6	33.0	35.0	37.2	38.7
China	11.8	16.2	17.4	19.4	26.4	35.9	49.2	61.4	66.5
Germany	67.9	71.4	72.3	72.8	73.1	75.0	77.0	77.5	78.0
Malaysia	20.4	26.6	33.5	42.0	49.8	62.0	70.9	77.2	79.7
France	55.2	61.9	71.1	73.3	74.1	75.9	78.4	81.0	82.3
United States of America	64.2	70.0	73.6	73.7	75.3	79.1	80.8	82.7	83.7
United Kingdom	79.0	78.4	77.1	78.5	78.1	78.7	81.3	83.9	85.1
Australia	77.0	81.5	84.0	85.6	85.4	84.2	85.2	86.2	86.9

Note: P – Projected; Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)

Increasing per capita income to support economic growth

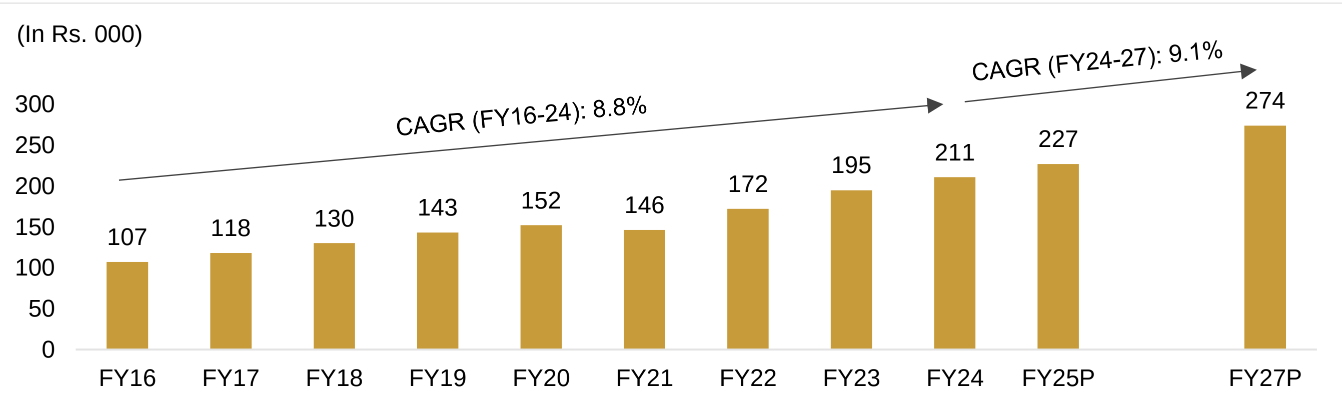
India's per capita net national income expanded grew 6.8% in fiscal 2024, reflecting robust economic growth and the government's continued endeavour to make the country an upper middle-income economy.

Per capita NNI	FY24^ (Rs '000)		Growth at constant prices (%)										
	Current prices	Constant prices	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	183	106	4.6	6.2	6.7	6.8	5.7	5.8	2.9	-7.6	7.6	5.7	6.8

Note: P – projected. (^) Per capita NNI as per Second Advance Estimates of National Income, 2023-24; *Source: Ministry of Statistics and Program Implementation (MoSPI), International Monetary Fund (IMF), CRISIL MI&A*

As per the IMF, India's per capita GDP is projected to rise at a 3-year CAGR of 5-6% in real terms and at 9-10% in nominal terms between fiscals 2024 and 2027.

Trend in nominal GDP per capita at current prices

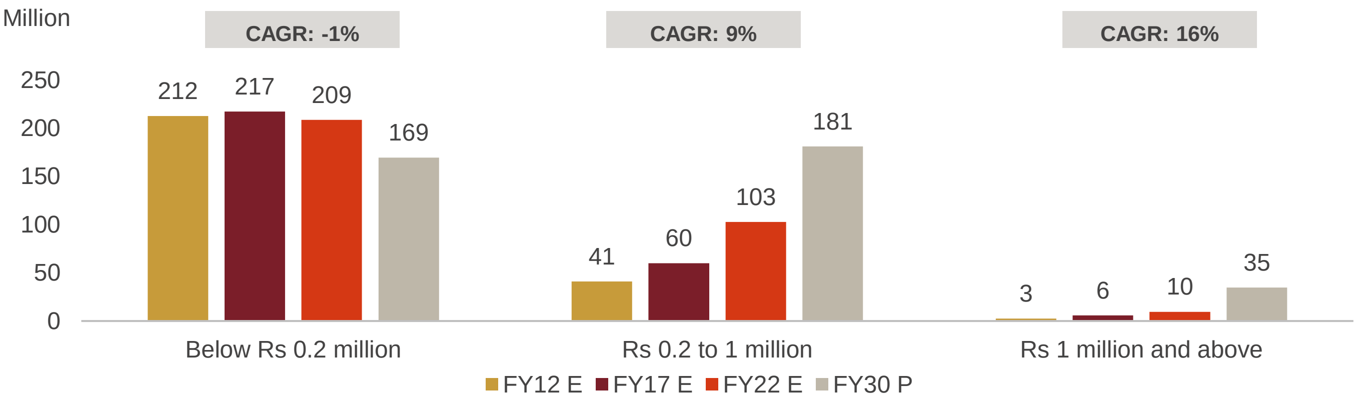


Note: P - projected. FY24 estimates are based on second advance estimates by MoSPI; FY25-FY27 projections are based on IMF – World Economic Outlook (April 2024 update); Source: MoSPI, IMF, CRISIL MI&A

Rising Middle India population to help sustain economic growth

The proportion of "Middle India" (defined as households with annual income of Rs 0.2-1.0 million) has been on the rise over the past decade and is expected to continue increasing with rising GDP and household incomes. CRISIL MI&A estimates there were 41 million middle-income households in India in fiscal 2012 and by fiscal 2030, expects it to increase to 181 million households by fiscal 2030. A large number of households that have entered the middle-income bracket in the past few years are likely to be from semi-urban and rural areas. CRISIL MI&A believes that improvement in literacy levels, increasing access to information and awareness, increase in the availability of necessities and improvement in road infrastructure have increased the aspirations of Middle India, which is likely to translate into increased opportunities for providers of financial services providers.

Middle India households to witness high growth over fiscals 2012-2030



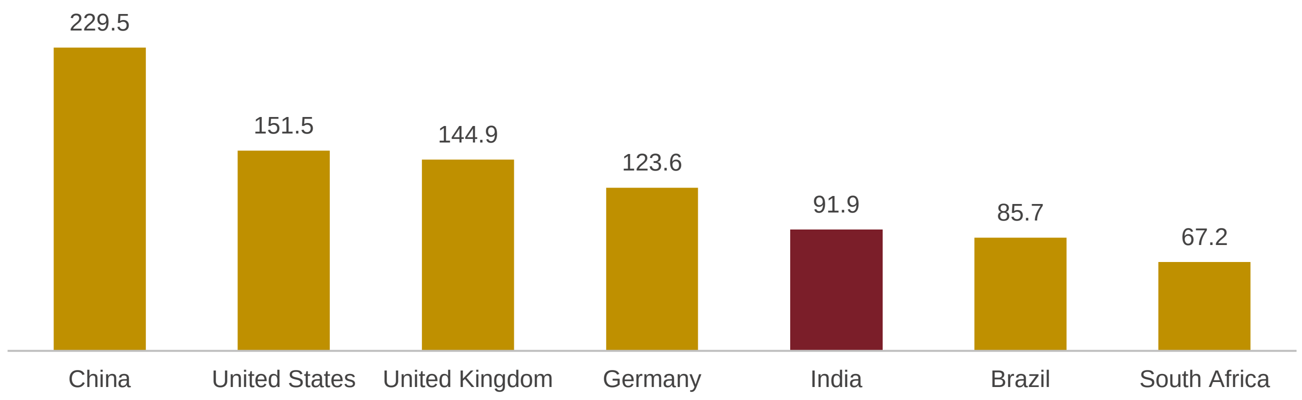
Note: E - Estimated, P – Projected; Source: CRISIL MI&A

Overview of credit scenario in India

Credit penetration is lower in India as compared to other countries

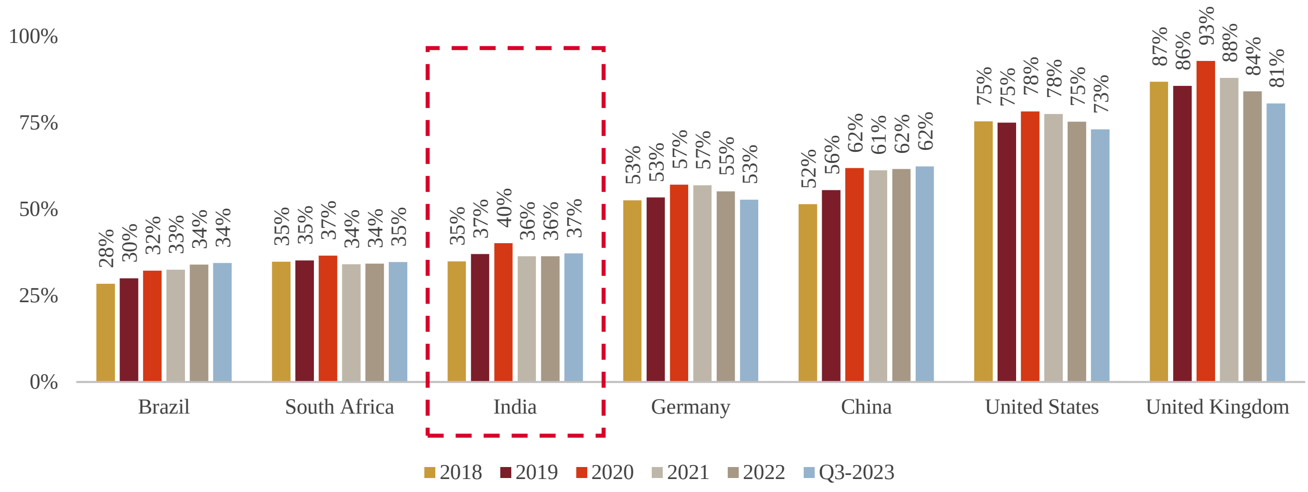
In terms of credit to GDP ratio, India has a low credit penetration in comparison to other developing countries, such as China, indicating the potential that can be tapped. Similarly, in terms of credit to households as a proportion of GDP as well, India lags other markets. With rising financial awareness, the government's continuous efforts for financial inclusion and rising credit accessibility to the underserved population, credit penetration in India is expected to rise. The surge in credit penetration would be led by growth in retail credit.

Credit to GDP ratio (%) as of the third quarter of 2023



Source: Bank of International Settlements, CRISIL MI&A

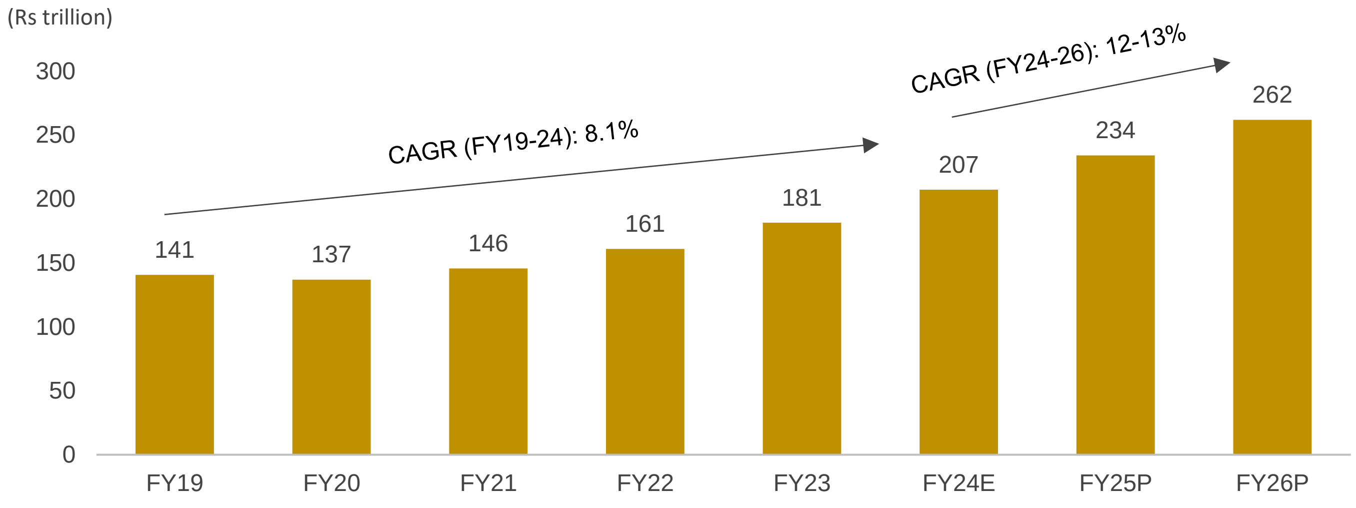
Household credit to GDP ratio of India and peer countries



Source: Bank of International Settlements, CRISIL MI&A

Systemic credit to grow at 12%-13% CAGR between 2024-2026

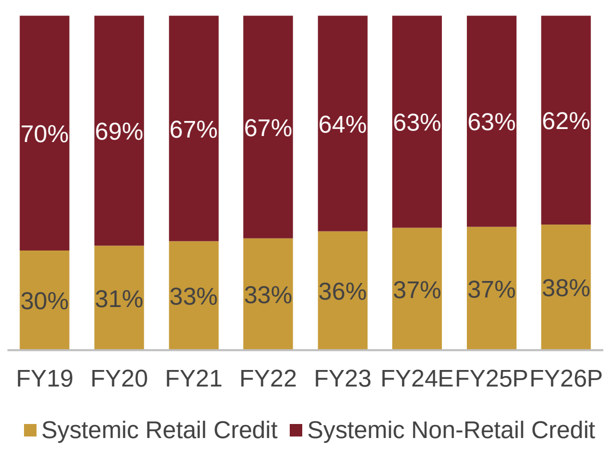
Systemic credit in India grew at a 5-year CAGR of 8.1% over fiscals 2019 and 2024 and at 3-year CAGR of 12.5% over fiscals 2021 and 2024. Retail credit continues to lead the systemic credit growth in fiscal 2024, supported by the focused approach of banks and NBFCs in increasing the retail portfolio. Going ahead, CRISIL MI&A Research expects Banks to grow at a slightly slower pace compared to NBFCs in the near-to-medium term, reporting a CAGR of ~13% and ~15% respectively for the lender groups, between fiscals 2024 and 2026.



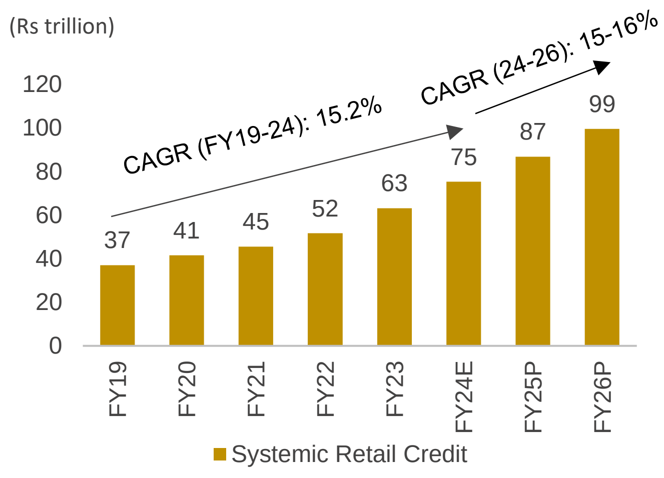
Note: P: Projected; systemic credit includes domestic banking credit (after deduction of bank lending to NBFC), NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by banks and NBFCs; Source: RBI, company reports, CRISIL MI&A

Retail credit (includes housing finance, vehicle financing, gold loans, education loans, consumer durables, personal loans, credit cards and microfinance) in India is estimated at Rs 75 trillion, as of fiscal 2024. CRISIL MI&A expects retail credit growth to continue in the long term with banks and NBFCs' continued focus on the sector.

Retail credit accounted for 37% of overall systemic credit as of FY24



Retail credit growth to continue on a strong footing



E – Estimated; P – Projected*; Source: RBI, CRISIL MI&A*

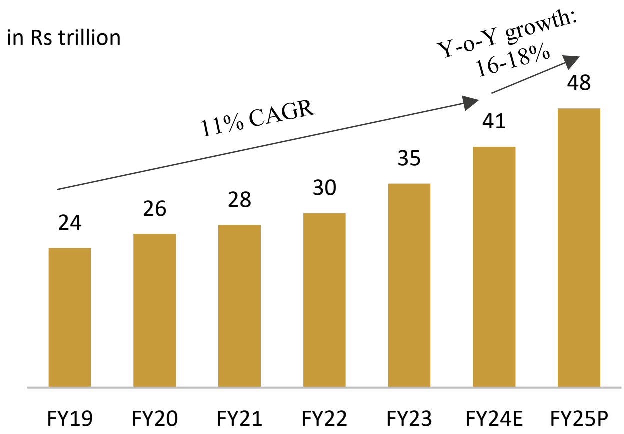
Overview and market landscape of NBFC sector in India

The Indian financial system services system includes banks and non-banking financial companies (NBFCs). Though the banking system dominates financial services, NBFCs have grown in importance by carving a niche for themselves by catering to customers in under-banked regions or those who would not be catered to by traditional financial institutions, owing to the absence of credit history or lack of proper collateral records.

NBFC credit to grow faster than systemic credit

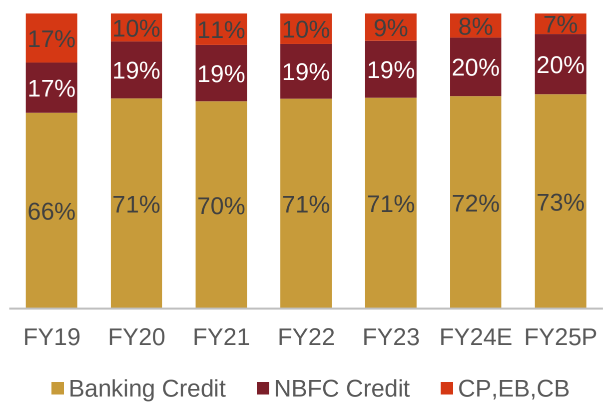
Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than Rs 2 trillion AUM at the turn of the century to Rs. 41 trillion at the end of Fiscal 2024. NBFC credit is projected to grow at 16-18% in Fiscal 2025, with microfinancing and vehicle financing to leading the growth in retail credit, and MSME loans in wholesale credit continuing to be the primary drivers. Rapid revival in the economy is expected. Share of NBFCs in systemic credit increased to 20% in Fiscal 2024 from 17% in Fiscal 2019 and is projected to rise gradually going forward. NBFCs will continue to remain an important aspect of the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customers that are not catered by Banks. Moreover, NBFCs will continue to gain market share over banks due to their ability to provide flexible lending solutions and tailored services, focused approach to tap under-served and niche customer markets, ability to penetrate deeper into geographies, leveraging technology to reinvent the lending process, strong origination skills and shorter turnaround time.

NBFC credit to grow 16-18% in fiscals 2024 and 2025



E – estimated; P – projected; Note: Others include commercial papers, external borrowings, corporate bonds excluding those issued by banks and NBFCs; Source: RBI, company reports, CRISIL MI&A

Share of NBFCs in overall systemic credit to reach 20% in fiscal 2025



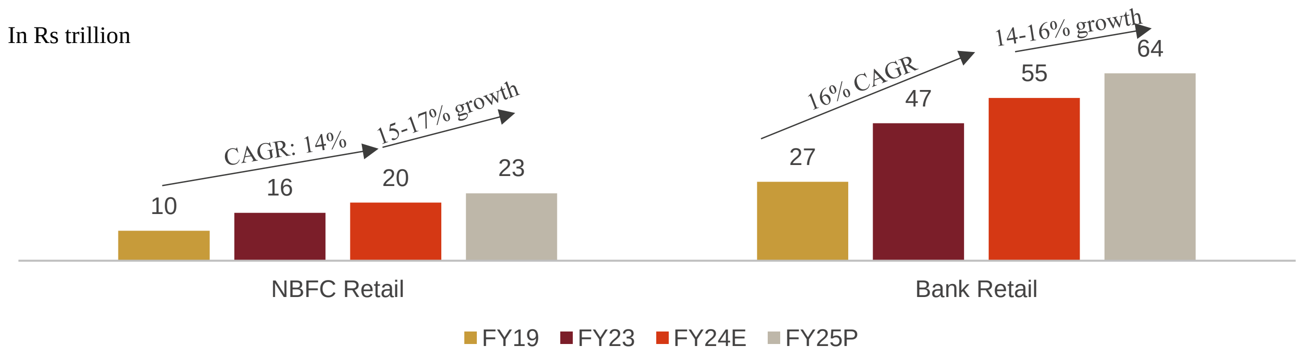
E – estimated; P – projected; Note: Systemic credit includes domestic banking credit, NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by banks and NBFCs; Source: RBI, company reports, CRISIL MI&A

NBFC's share is estimated to have increased from 12% in Fiscal 2008 to 20% in Fiscal 2024 and projected to be remained stable in fiscal 2025. CRISIL MI&A believes that NBFCs will remain a force to reckon within the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customers that are not catered by banks.

Retail credit to support NBFCs' overall credit growth

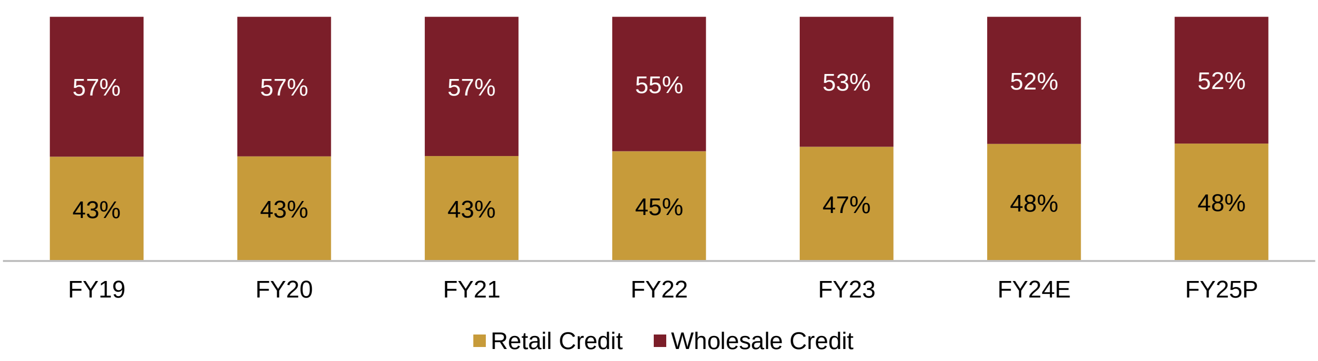
Going forward, on-year growth in the NBFC retail credit is expected at 15-17% in Fiscal 2025, which will support overall NBFC credit growth, with continued focus on the retail sector and multiple players announcing plans to reduce wholesale exposure. Between Fiscal 2018 and Fiscal 2020, unsecured portion of the NBFC book logged a CAGR of 43%. Growth dipped in Fiscal 2021 on account of pandemic as NBFCs focussed on secured credit where the loss given default was low. After the pandemic, NBFCs focussed on targeting New to Credit (NTC) customers focussing on Tier 2 and lower tier cities. Unsecured credit of NBFCs grew at a CAGR of more than 40% post pandemic as compared to 10-11% growth in secured lending. The emergence of fintech players also played a key role in growth of unsecured lending with their new lending practices and catering to markets that the traditional financial institutions may not reach.

NBFC retail credit expected to grow 15-17% in fiscal 2025



P – projected; Note: Retail credit above includes housing finance, vehicle finance, microfinance, gold loans, construction equipment finance, consumer durable finance, MSME loans and education loans; Source: Company reports, RBI, CRISIL MI&A

Share of retail credit in total NBFC credit to continue to grow



E – estimated; P – projected; Note: Retail credit above includes housing finance, auto finance, microfinance, gold loans, consumer durable finance, MSME loans, education loans and other smaller asset classes; Source: Company reports, CRISIL MI&A

Impact of digitisation on retail credit

Digital lending products such as instant loans or online personal loans have completely revolutionised retail credit due to the great convenience that it offers to the customers. The underwriting process, while essential for assessing borrowers, can sometimes be time-consuming and reliant on subjective elements. Thus, there is room for improvement in leveraging all available data efficiently. Organizations may find opportunities to streamline the process, making it more agile and resource effective. Lenders are increasingly using their web platforms and creating apps to register, score, approve and disburse loans to their customers. For lenders, digitization has enabled them to make informed decision making through business insight generation and data visualization. Moreover, it has improved lead generation for lenders with faster onboarding of customers, comprehensive loan servicing, and fraud detection. For customers, it has become easier to gather information about different lenders with the help of digitization and compare them. Further, online loan application has made it convenient for borrowers to fill loan applications from remote locations, calculate EMIs, check for eligibility of loan amount and provide all documents digitally which enhances customer experience throughout the process and helps them make an informed decision.

NBFCs have a reasonable market share across asset classes

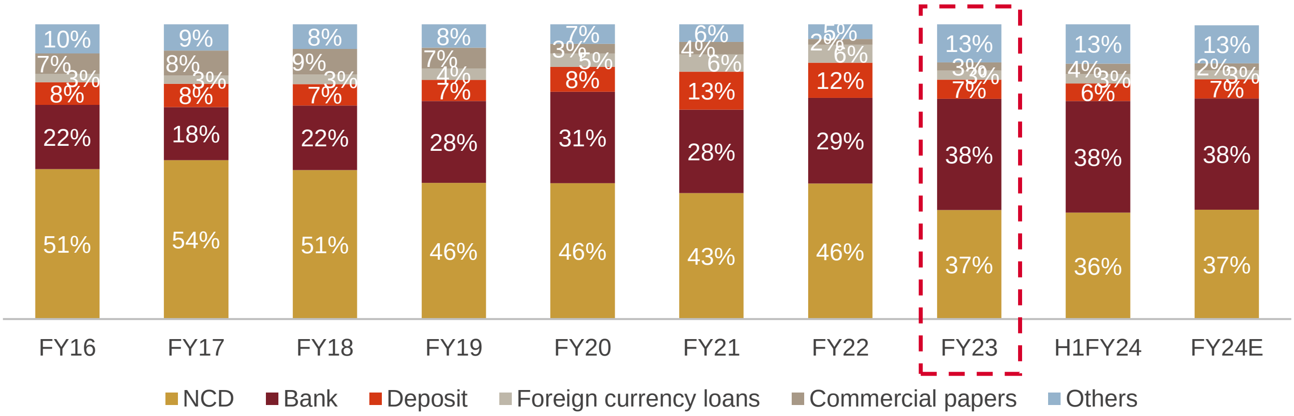
Under-served households and businesses represent a significant proportion of India's population that faces challenges in obtaining credit due to reasons such as a lack of credit history and the inability to provide collateral. NBFCs have generally been able to address this opportunity on account of their strong origination skills, extensive reach, better customer service, faster processing, streamlined documentation requirements, digitization of customer on-boarding process, customized product offerings, local knowledge, and differentiated credit appraisal methodology. The rapid evolution of fintech's over the last few years has added another dimension to the market served by NBFCs and has fuelled rapid growth across the landscape, causing NBFCs to have consistently gained or maintained market share across most asset classes over the last few years.

Banks continue to gain share in borrowing mix of NBFCs; expected to undergo moderation in near to medium term

In Fiscal 2023, NBFCs' borrowings from banks witnessed high growth resulting in an increase in share to 38% of total funding at the end of fiscal 2023, up from 29% at the end of fiscal 2022. Share of bank's lending to NBFCs has almost nearly doubled during the last 10 years. During fiscal 2023, with interest rate tightening and the repo rate increasing by 250 bps to 6.50%, the cost of debt market borrowings increased leading to high-risk premium for lower rates rated NBFCs, leading to banks' term loans becoming the preferred source of borrowing. This was also supported by improved credit growth during fiscal 2023 across all asset classes leading to higher demand of bank credit from NBFC. Growth in banks credit exposure to NBFC grew at 22% on-year basis as of November 2023.

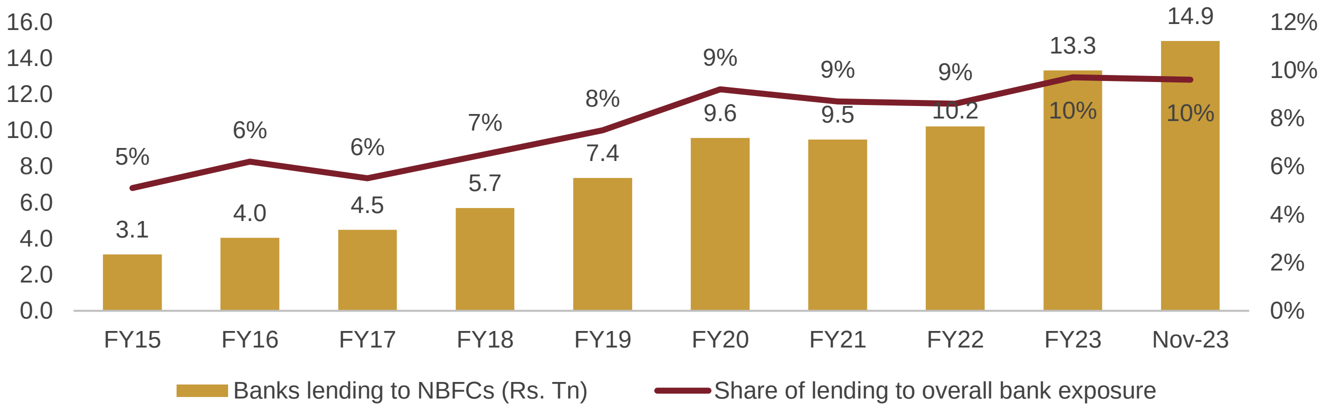
Going forward, CRISIL MI&A believes that, going forward, funding access would gradually improve for NBFCs who are able to demonstrate strong performance. However, NBFCs' reliance on bank funding from Banks, SFBs and funding from other NBFCs and small finance banks is expected to remain high in fiscal 2025, while even as it is expected to moderate in the near term with as an impact of RBI circular on risk weight and further transmission of rate hikes accelerated by deficit liquidity in the banking system.

Bank borrowings expected to remain primary source of funds for NBFCs, apart from NCDs



E – estimated; Note: Based on sample set of NBFCs accounting for more than 80% of overall borrowings of NBFCs as of March 2023; for fiscal 2023,'NCD'includes debt securities and NCDs, 'Bank' includes banks and National Housing Bank, and 'Others' include related parties, foreign institutions, external commercial borrowings, and other sources; Source: Company reports, CRISIL MI&A

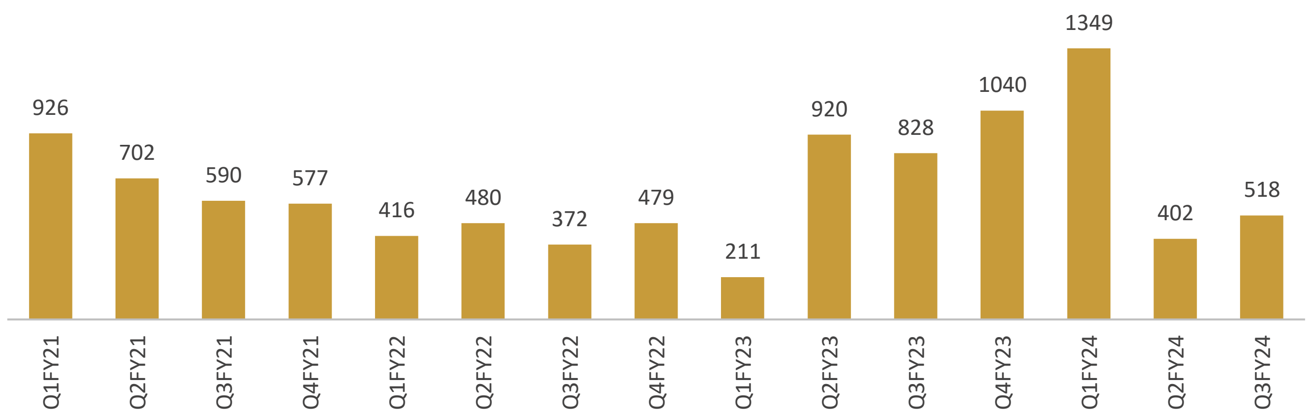
Bank funding to NBFCs continues to clock healthy growth



Source: RBI, company reports, CRISIL MI&A

The share of bank lending to NBFCs has almost doubled during the past 10 years. In fiscal 2023, with interest rate tightening and repo increasing 250 bps to 6.50%, the cost of debt market borrowing increased. This contributed to higher-risk premium for lower-rated NBFCs, leading to term loans of banks becoming the preferred source of borrowing. Growth in banks credit exposure to NBFC grew at 22% on-year basis as of November 2023.

NCD issuances to remain a monitorable



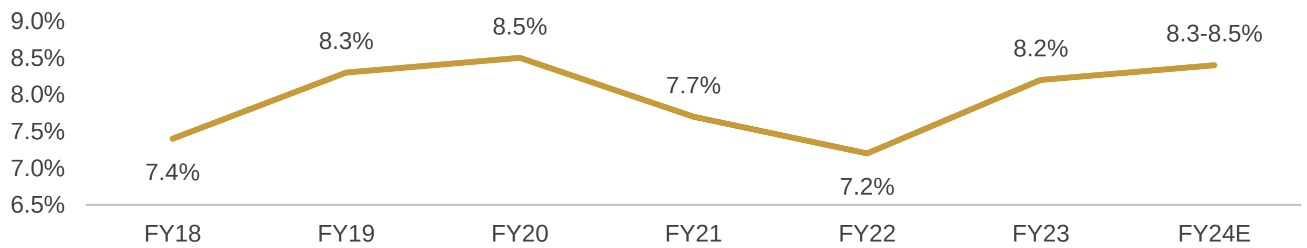
Note: Issuance data for top 100 NBFCs/HFCs in terms of AUM considered for issuances; Source: BSE, CRISIL MI&A

NCD issuances dipped in fiscal 2022 with a fall in investor interest for NBFCs' NCDs due to concerns over asset quality. NCD issuances substantially rebounded to approximately Rs. 3.0 trillion in fiscal 2023. However, in Q1 of fiscal 2024, NCD issuances fell after Q1 FY2024 impacted by HDFC merger as a significant amount of issuance was made by HDFC limited during May 2023 (~37%) and June 2023 ~ (31%) of the total issuances of NCDs. Subsequently, the company merged with HDFC bank w.e.f. July 2023. By 31st December 2023, the total amount of issuances rose to Rs 230 billion from Rs 210 billion in November 2023, with Tata Capital Financial Services, Muthoot Finance Limited and Shriram Finance Limited collectively accounting for approximately 25% of these issuances. Overall, the issuances in Q3 FY24 increased by 29% on a sequential basis while declining by 37% on year basis.

NBFC borrowing cost estimated to have increased in fiscal 2024

On account of increased unsecured lending in recent times by NBFCs, the RBI introduced a circular on risk weights, which acts as a deterrent to the growth of unsecured loans. As per the circular, the risk weights of all consumer loans (extended by both banks and NBFCs) were increased, excluding housing, vehicle, education and gold loans. Additionally, the risk weights for exposure of banks to NBFCs where the extant risk weight of the NBFC is below 100% was also increased. An increase in the cost of funds for NBFCs could drive the demand for securitisation and co-lending. NBFCs will also need to maintain adequate capital buffers.

Borrowing cost for NBFCs estimated to have increased in fiscal 2024

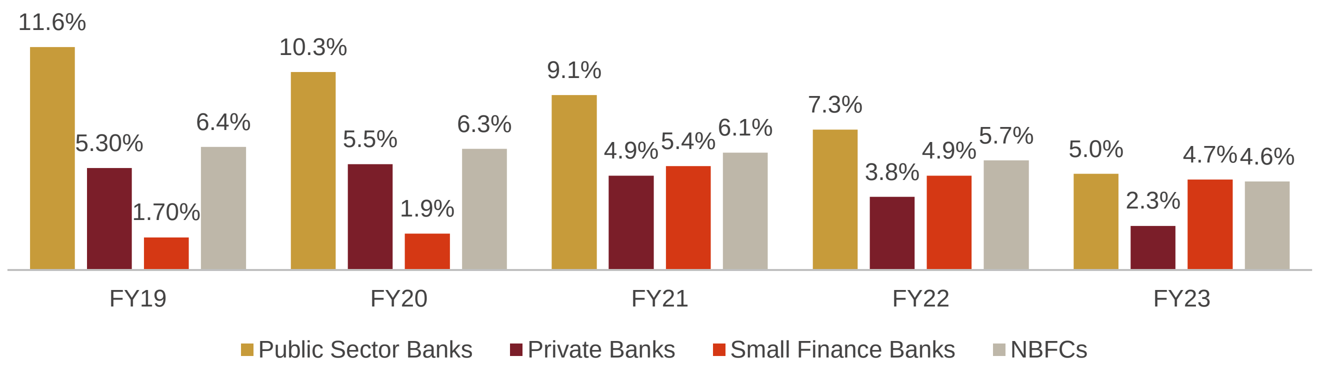


E – estimated; Note: Data represents cost of borrowing of players, which cumulatively accounts for 85% of overall NBFC AUM; Source: Company reports, CRISIL MI&A

Asset quality estimated to have improved on account of efficiency in collection process and improvement in economic activity in Fiscal 2024

Asset quality of NBFCs is influenced by various factors such as economic cycle, target customer market, geographical exposure and local events. Within the NBFC universe itself, it is observed that various asset classes tend to exhibit heterogeneous behaviour.

Asset quality (across all asset classes) comparison of NBFCs and banks



Note: The % indicates Gross Non-Performing Assets for Player Groups; Source: RBI, CRISIL MI&A

Asset quality of NBFCs improved at the end of fiscal 2023 and is estimated to have improved further in fiscal 2024 on account of the normalisation of economic activity and improved collection efficiency across asset classes, with gold loans being an exception. Collection efficiency is expected to hold up in the near future, resulting in easing of asset quality pressure.

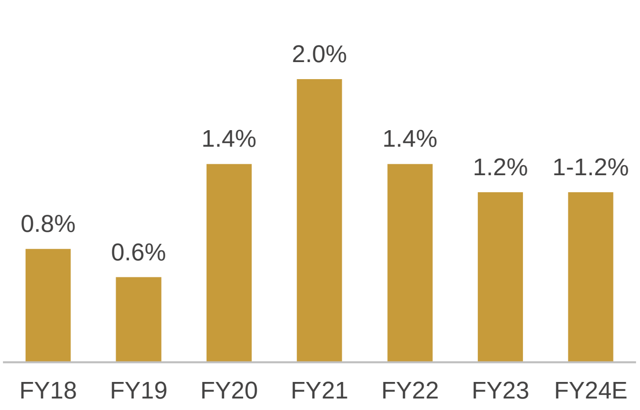
As per CRISIL MI&A estimates, credit cost for NBFCs is estimated to have declined moderately and profitability improved in Fiscal 2024

Overall yield and cost of funds for retail credit is estimated to have increased during fiscal 2023 due to the interest rates hikes. However, the amount of pass-on has been distinct across all asset classes on account of level of competition, nature of asset class and sectoral credit demand. Overall yield increased moderately in fiscal 2024. Accordingly, a stable or modest increase in RoA is estimated for all asset classes in fiscal 2024.

A decline in credit costs due to improved collections and lower slippages continues to support improvement in profitability in the short to medium term. In fiscal 2023, MFI loans, which typically has more pricing power, was able to improve its NIM. Similarly, housing credit also improved its NIM owing to the floating nature of its loan book, where it was able to pass on the increase in rates to its customers faster. However, competition from banks and subdued credit demand resulted in NIM compression for gold loans. Furthermore, the impact of RBI circular on risk weights on cost of funds is yet to be seen, thereby NIMs and RoA for NBFCs will be a key monitorable.

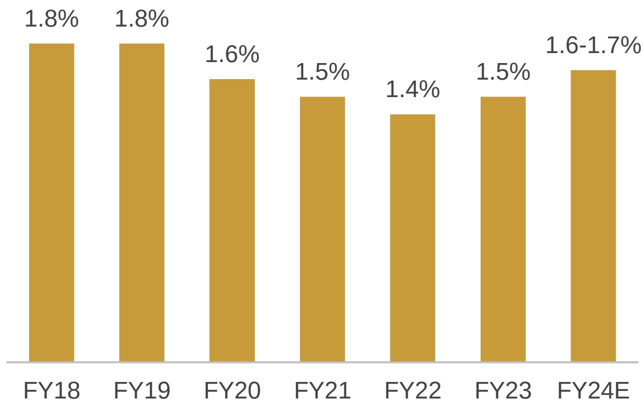
Profitability ratios of NBFCs

Credit costs for NBFCs declined moderately in fiscal 2024



E – estimated; Source: CRISIL MI&A

Profitability (RoA) for NBFCs increased moderately in fiscal 2024



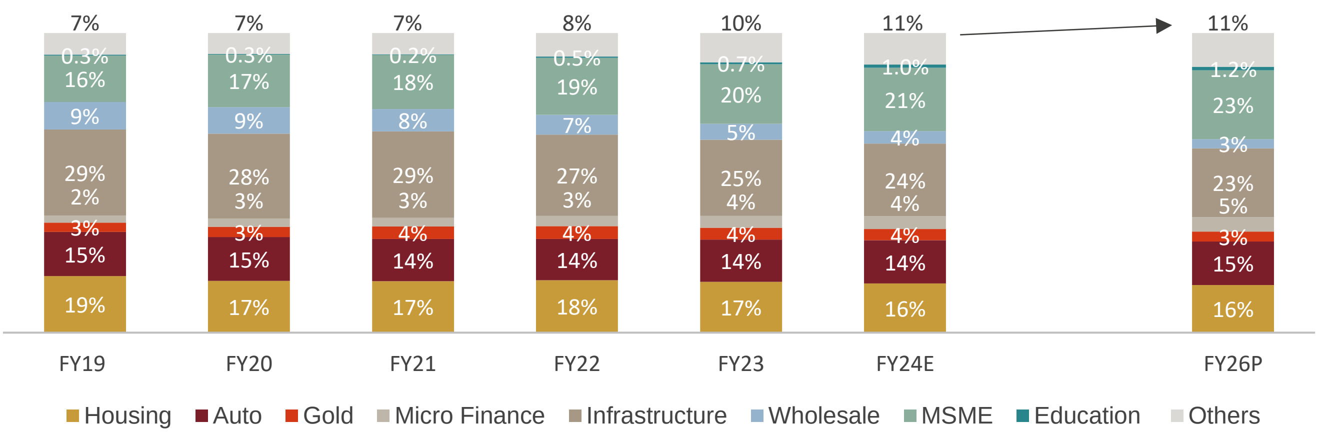
E – estimated; Source: CRISIL MI&A

Comparison among various asset classes of NBFCs

Education loans constituted ~1.0% of overall NBFC credit as of fiscal 2024

Though infrastructure accounts for the highest share in NBFC credit (24%) as of fiscal 2024, its share in the overall NBFC credit outstanding has come down over the past fiscals from 29% in fiscal 2019. MSME credit which accounts for 21% share as of fiscal 2024, witnessed a rise in its market share from 16% in fiscal 2019. Housing and auto loans constitute ~16% and ~14% share in overall NBFC credit as of fiscal 2024. Going forward, it is expected that share of MSME credit and Auto credit in NBFC will be increased to around 23% and 15% respectively, by fiscal 2026.

Distribution of NBFC credit across asset classes



E – estimated; P – projected; Note: Others include consumer durable loans, personal loans, and construction equipment finance; Source: RBI, company reports, CRISIL MI&A

Education loans AUM recorded highest 5-year CAGR of 41.1% between fiscals 2019 and 2024

Education loans recorded AUM growth, from Rs 75 billion in fiscal 2019 to Rs. 90 billion in fiscal 2021 and an estimated Rs 418 billion in fiscal 2024, at a 5-year CAGR of 41.1%, and 3-year CAGR of 65% over fiscals 2021 and 2024, which is significantly higher than other asset classes. Growth in education loans AUM was led by higher disbursements, a unique underwriting model, well-defined sourcing channels and expertise of specialised NBFCs. Over the years, other marketplace players such as GyanDhan, and Propelld have also entered the market to provide loans to students across various categories. Furthermore, fintech start-ups such as MoneyView, PaySense and InCred also extend education loans alongside a range of other credit services. Personal loans AUM recorded the second highest 5-year and 3-year CAGR of 34.7% and 41.6% respectively, followed by MSME loans AUM at 5-year CAGR of 18.7% and 3-year CAGR of 20.4%.

Asset class	FY19 (in Rs. Bn)	FY24E (in Rs. Bn)	3-year CAGR (FY21-FY24E)	5-Year CAGR (FY19-FY24E)
Housing loan	4,522	6,757	12.2%	8.4%
MSME loan	3,718	8,747	20.4%	18.7%
Auto loan	3,524	5,965	15.0%	11.1%
Personal loan	647	2,872	41.6%	34.7%
Education loan	75	418	65.0%	41.1%
- Education loan portfolio of specialised NBFCs	75	391	66.0%	39.1%
Others	11,452	16,479	8.1%	7.5%
Total NBFC credit	**23,938**	**41,238**	**14.0%**	**11.5%**

E – estimated; Note: Others include gold, consumer durables, microfinance, infrastructure, wholesale and construction equipment loans; education loan specialised NBFCs include HDFC Credila, Avanse and Auxilo; Source: CRIF High Mark, CRISIL MI&A

Education loans had the best asset quality across asset classes for NBFCs

Between fiscal 2022 and 2024, Education loans recorded the best asset quality with GNPA being lowest at 0.9% in fiscal 2022, 0.4% in fiscal 2023 and 0.3% in fiscal 2024, reflecting better asset quality of education loans among all asset classes. Gold loans had the lowest credit cost between fiscal 2022 and 2024 ranging from 0.1%-0.2%, however the GNPA was estimated to be relatively higher ranging from 2.8%-3.0% between fiscal 2022 and 2024. Education loans reported the second lowest credit cost at 0.3% during the same period.

Credit Cost and GNPA for NBFCs across asset classes

Asset class	FY22		FY23		FY24E		FY25P	
	Credit Cost	GNPA	Credit Cost	GNPA	Credit Cost	GNPA	Credit Cost	GNPA
MSME Loans	*1.20%*	*3.10%*	*1.30%*	*2.60%*	*1.40%*	*2.5-2.6%*	*1.3-1.5%*	*2.4-2.7%*
Auto Loans	*2.50%*	*6.60%*	*1.80%*	*5.00%*	*1.70%*	*4.0-4.5%*	*1.6-1.8%*	*4-4.5%*
Personal Loans	*3.60%*	*8.90%*	*3.20%*	*8.30%*	*3.00%*	*11.0-11.2%*	*2.8-3.0%*	*10.8-11.0%*

Gold Loans	*0.10%*	*2.80%*	*0.10%*	*3.00%*	*0.20%*	*2.8-3.0%*	*0.2-0.3%*	*2.5-2.7%*
Housing Loans	*0.60%*	*2.10%*	*0.50%*	*1.60%*	*0.60%*	*1.2-1.3%*	*0.3-0.5%*	*1.1-1.2%*
Affordable Housing	*0.70%*	*3.00%*	*0.40%*	*2.00%*	*0.50%*	*1.7-1.9%*	*0.2-0.4%*	*1.5-1.7%*
MFI Loans	*2.90%*	*6.00%*	*2.40%*	*2.90%*	*2.00%*	*2.0-2.2%*	*1.7-1.9%*	*1.8-2%*
Education Loans (Specialized NBFCs)	*0.30%*	*0.90%*	*0.30%*	*0.40%*	*0.30%*	*0.30%*	*0.2-0.3%*	*0.2-0.3%*

Note: E = Estimated; P = Projected; For education loan specialised NBFCs, HDFC Credila, Avanse and Auxilo have been considered

Source: CRISIL MI&A, Company Documents, Note: Ratios on average total assets

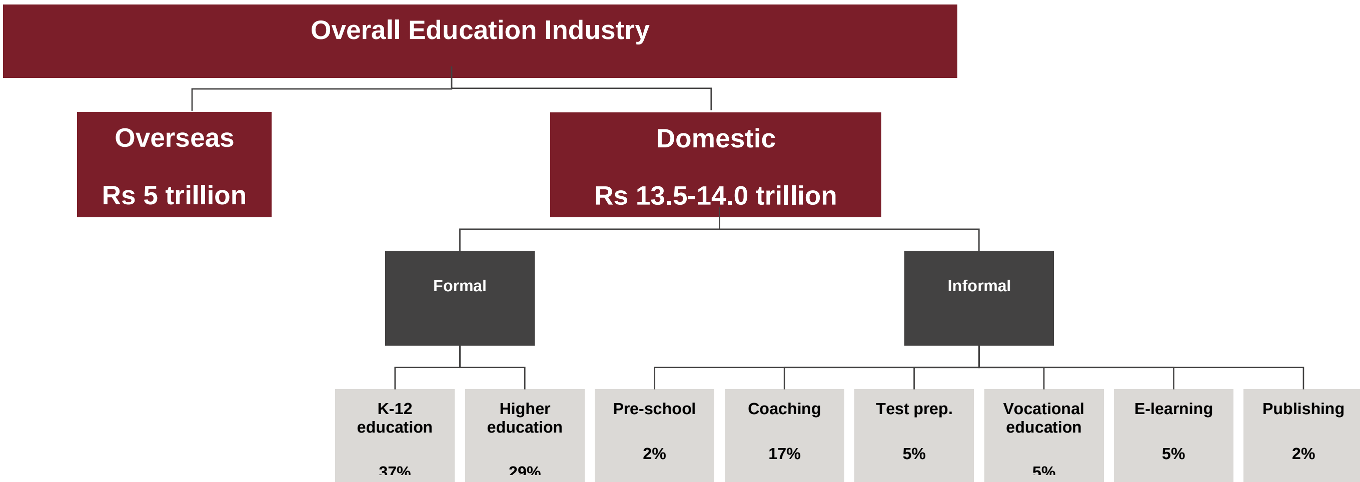
Over the years, education finance focused NBFCs have received lot of interest from investors, owing to the safe nature of the asset class and the quick fast growth it is likely to witness. Below are some of the transactions in education finance focused NBFCs.

- Avanse Financial Services raised ~Rs 10 billion in equity from Mubadala Investment Company and Avendus Future Leaders Fund II in March 2024
- HDFC sold a 90.01% stake in HDFC Credila for ~Rs 95.5 billion to investors EQT and ChrysCapital in March 2024
- Auxilo Finserve received capital infusion to the extent of ~Rs 4.7 billion from Tata Capital Growth Fund II, Trifecta Leaders Fund - I, Xponentia Opportunities Fund - II, along with existing shareholder ICICI Bank Ltd, in July 2023

Overview of Educational Services Industry

In India, the overall education market in fiscal 2024 is estimated at ~Rs. 18.5-19.0 trillion, which includes both the overseas education market and the domestic education market. The overseas education market involves students pursuing education in a foreign country, while the domestic education market encompasses comprises education within one's own country. Among the categories, CRISIL expects overseas education market to outpace the domestic education market in India.

Domestic Education accounts for a larger share in Overall Education Industry (fiscal 2024 estimates)



Note: Sum of Total Addressable Market of Overseas Education for CY2023 & Domestic Education for FY2024; Source: UDISE+ reports, AISHE reports/data, AICTE, CRISIL MI&A*

The Overseas Education market (expenditure incurred by students going abroad) in India has been experiencing significant growth in recent years and is estimated to have reached Rs. 5 trillion in CY2023. The growth in this market can be attributed to an increasing number of Indian students seeking international exposure, high-quality education and the rising cost of attendance. The overseas education market is projected to grow at a ~17% CAGR to reach Rs. 10.5-11.5 trillion by end of CY2028.

Overseas Education Market in India

Overseas Education	CY2023	CY2028	CAGR during the period (2023-28)
Total Addressable Market	Rs. 5 trillion	~Rs. 10.5 – 11.5 trillion	~17%

Source: Company reports, CRISIL MI&A

The Domestic education industry can broadly be classified into two categories: formal and informal. The formal category comprises kindergarten to grade 12 (K-12) school education and higher education (including graduation and post-graduation). On the other hand, the informal sector includes early childhood education, vocational training, publishing, e-learning, test preparation and coaching services. The Domestic Education market is estimated at Rs 13.5-14.0 trillion in fiscal 2024. It is estimated to have grown at a compound annual growth rate (CAGR) of 9% over fiscals 2018 and 2024, and at 3-year CAGR of 15% between fiscals 2021 and 2024, primarily led by recovering demand after the pandemic. Going forward, the education industry is expected to grow at a CAGR of 12-13% over fiscals 2024 to 2029, with its market size exceeding Rs 24 trillion.

Domestic Education Market in India

Domestic Education	FY2024	FY2029	CAGR during the period
Total Addressable Market	~Rs 13.5-14 trillion	~Rs. 24-24.5 trillion	~12-13%

Source: Company reports, CRISIL MI&A

Overview of Overseas Education Market in India

India has long been a significant contributor of international students, with a rising number of Indian students opting for higher education abroad. The surge in Indian students going abroad for studies is fuelled by the growing aspirations of students for education in foreign universities, alongside the increasing trend of Indian students choosing to study abroad for a better lifestyle and earning capability. According to the Ministry of External Affairs, Government of India, over 1.5 million Indian students were pursuing studies overseas in 2023. The top 15 destinations for Indian students during the past five years were the US, Canada, the UK, Australia, Germany, the Russian Federation, Bangladesh, Kyrgyzstan, Ukraine, Singapore, China, the Philippines, the UAE, France and New Zealand. These 15 countries together account for 89.7% of the total population of Indian nationals who went abroad between 2018 and the first half of 2023. At an overall level, in October 2023, the number of Indian students abroad was estimated at 1.5 million in October 2023.

Destination-wise number of Indian nationals who went abroad for education (per calendar year)

Top 15 countries	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023E	CAGR (2019-23)
US	122,535	62,415	125,115	190,512	268,923	21.7%
Canada	132,620	43,624	102,688	185,955	241,602	16.2%
UK	36,612	44,901	77,855	132,709	164,724	45.6%
Australia	73,808	33,629	8,950	59,044	96,442	6.9%
Share of top 4 countries	**62.3%**	**71.1%**	**70.8%**	**75.7%**	**80.2%**	-
Germany	18,034	9,865	16,259	20,684	19,664	2.2%
Russia	16,545	1,387	15,814	19,784	12,312	-7.1%
Bangladesh	13,412	5,479	10,493	17,006	22,873	14.3%
Singapore	15,419	4,860	2,664	17,085	17,538	3.3%
Kyrgyzstan	12,942	865	15,162	14,728	8,777	-9.3%
Ukraine	13,911	6,723	18,596	2,199	409	-58.6%
China	19,170	398	3	1,967	10,224	-14.5%
The Philippines	13,479	4,601	251	11,261	11,106	-4.7%
UAE	9,341	2,925	3,427	5,892	6,309	-9.3%
France	8,495	4,333	5,293	6,406	7,961	-1.6%
New Zealand	10,297	5,321	64	1,605	6,122	-12.2%
Total of top 15 countries	**516,620**	**231,326**	**402,634**	**686,837**	**894,985**	**14.7%**
Overall	**586,337**	**259,655**	**444,553**	**750,365**	**962,100**	**13.2%**
% Of top 15 countries	**88.1%**	**89.0%**	**90.6%**	**91.5%**	**93.0%**	-

Note: E = Estimated; The top 15 countries are identified based on cumulative Indian nationals going abroad between 2019 & 2023; Source: Ministry of External Affairs, CRISIL MI&A

Growth drivers for overseas education market

CRISIL expects the number of Indian students studying abroad to increase due to factors such as the expanding student population in India, rising competition, limited prestigious university seats locally, and a rising preference among students for global exposure, higher salary and emigration for a better quality of life. Additional factors include, rising awareness among Indian students and parents about the benefits of studying abroad, rising disposable incomes, and the proliferation of English-language institutions in non-English-speaking countries are also contributing to the growth of overseas education market. Below are the factors, which will continue to drive the prospects of the overseas education market in India:

- **Better quality of education:** Foreign universities ensure a higher standard of teaching, innovative methods of imparting knowledge, diversified courses, and various exchange programs. They also lay emphasis on practical and experiential learning which enable students to apply their knowledge in real-life situations.
- **Better career opportunities:** Studying abroad can enhance career prospects by providing access to a wider range of industries, networks and job opportunities. Students view international experience as an asset in the global job market.
- **Visa policies and immigration:** Favourable visa policies, including post-study work opportunities and permanent residency encourage Indian students to choose certain countries for their higher education.
- **Rising globalisation:** As the world becomes increasingly interconnected, there is a growing recognition of the value of international exposure and education. Indian students now seek to broaden their horizons via overseas education.
- **Availability of overseas-education financing:** India's population is largely comprised of low- and middle-income families who find it difficult to pursue overseas education due to shortage of funds. Further, tuition fees for international students are significantly higher than domestic students, hence there is a huge dependency on availability of financing options for funding their overseas spends.
- **Growing popularity of international board schools in India:** The growing popularity of international education through International Baccalaureate/International General Certificate of Secondary Education schools offering globally recognised curricula, serve as a funnel for students preferring an international educational experience.
- **Quality of Infrastructure:** In India, not a large number of Universities in India have access to high quality Infrastructure & cutting-edge technology, which act as a driver for students to go abroad.
- **Research opportunities:** Pursuing research opportunities and aspiration to work with some advanced technology drive students to seek admissions in STEM (science, technology, engineering and mathematics) courses abroad which have higher employment opportunities and job security than other courses.
- **Parental aspirations:** Many Indian parents prioritise their children's education and are willing to invest in sending them abroad for better academic and career prospects.
- **Information accessibility:** Increased access to information through the internet, social media and education consultants have enabled students to explore overseas education options and make informed

decisions. Further, the large Indian diaspora in several countries ensures convenience and ease of settling abroad for Indian students.

In addition, the acceptance of Indian students in overseas markets is a multifaceted phenomenon driven by mutual benefits for both the students and the host countries. Some of the drivers are as follows:

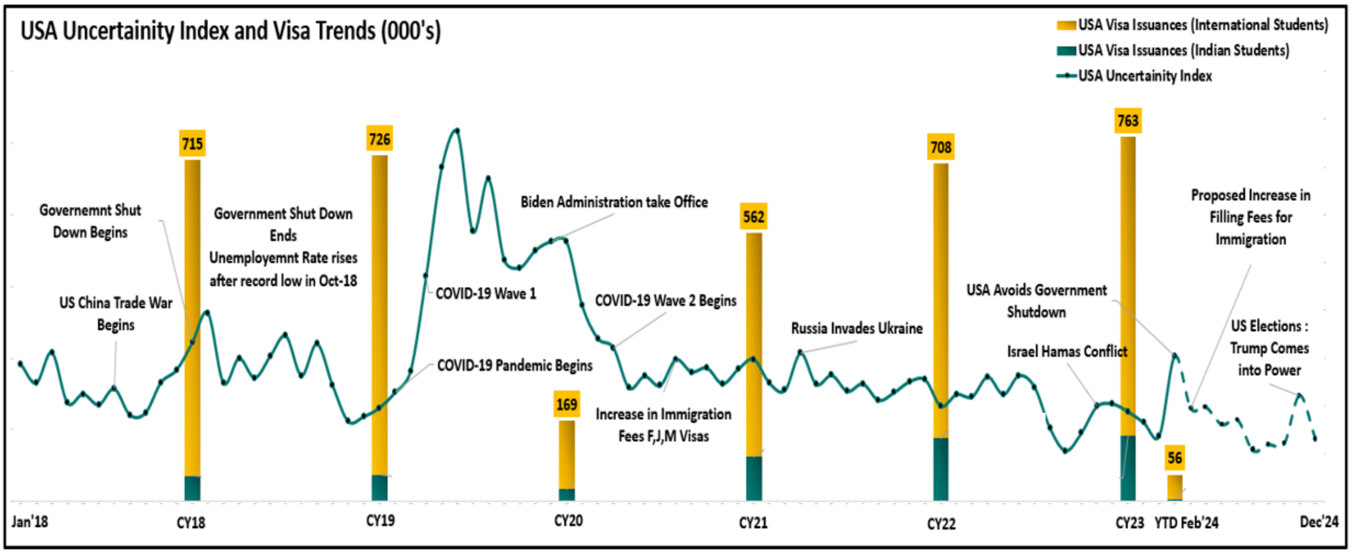
- **Ageing of local population:** Countries facing challenges with ageing local populations leads to a smaller workforce and a lower number of domestic students entering higher education. International students from countries such as India help fill this gap thereby supporting the local economy
- **Enrolment saturation in local country:** Enrolments in higher education universities in several countries are either stagnant or declining due to various factors, including demographic changes. International students provide a crucial source of enrolment, helping maintain and enhance the vitality and diversity of educational institutions
- **Talent shortage:** Many sectors globally are experiencing a shortage of skilled talent in areas such as IT, engineering, healthcare and research. Indian students, who often pursue degrees in these fields, are highly sought-after to fill these gaps. Their academic and professional contributions help drive innovation and growth in the host countries.
- **Diversity of students** is an important KPI for overseas Universities, abroad &which are therefore hence they are looking to increase proportion of international students while they are composing their class/ batch profile.
- **Fees paid by international students** is a major source of revenue for those educational institutions. The students also contribute to the economy of the countries by spending on accommodation, food, transportation and consumer goods.

Limited impact of Macro events on Visa issuances to Indian students

Further, historical trends suggest that visa issuances and immigration of Indian students have remained unaffected even during through geopolitical uncertainties, elections, change in government and the Covid-19 pandemic.

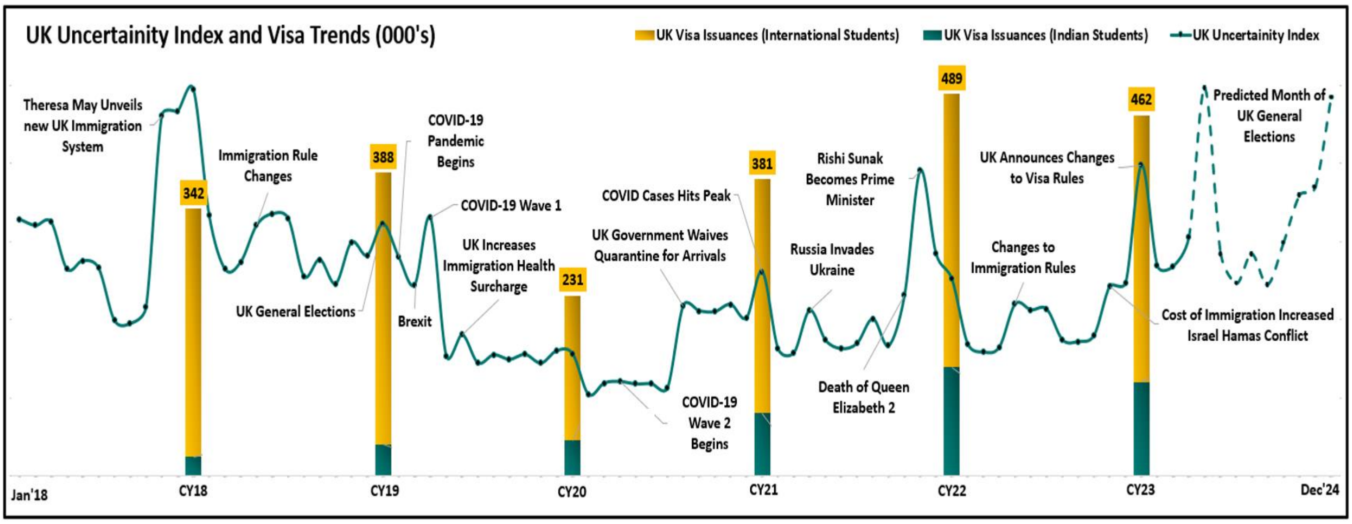
The Immigration Indices and Visa Issuance Trends provided below for US, UK and Canada reveals trends in visa issuance and immigration of Indian students in respective countries since January 2018. The trends in these countries show that visa issuance and immigration of Indian students remained unaffected by covid-19 pandemic, geo-political tensions such as US US-China Trade War, the Russian invasion of Ukraine, the Israel-Hamas conflict and tightening of trade tariffs by US, etc., and elections.

Trend of immigration and visa issuance to Indian students in the US



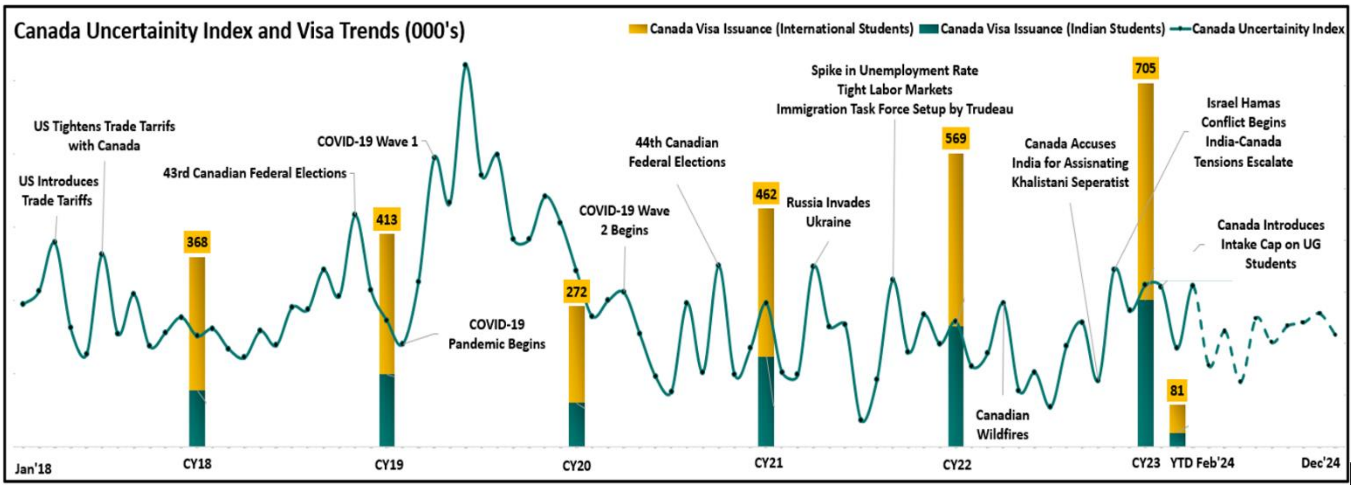
Source: Bureau of Consular Affairs - US Department of State, CRISIL MI&A

Trend of immigration and visa issuance to Indian students in the UK



Source: UK Visas and Immigration - Government of UK, CRISIL MI&A

Trend of immigration and visa issuance to Indian students in Canada



Source: IRCC – Government of Canada, CRISIL MI&A

USA remains a preferred destination for Indian students; UK and Canada catching up

The USA continues to be a preferred destination for Indian students to study abroad. According to an Open Doors report, the number of Indian students studying in the US increased 35% to an all-time high of 268,923 in calendar year 2022-23, accounting for 25.4% of total students visiting the US for education. Despite the steep cost of education, appeal of the US as a preferred destination for Indian student continues due to its strong reputation for STEM courses and well-funded research.

In USA, share of visa issuance to Indian students increased rapidly, from 7.6% in 2018 to 18.2% in 2023 owing to rise in number of F1 visas issued to Indian students for pursuing academic studies, J1 visas for practical training and M1 visas for vocational studies. Similarly, the share of visa issuance to Indian Students for UK and Canada has increased to 26.0% and 40.4% respectively in 2023, from 7.2% and 29.7% in 2018.

Key factors driving students towards the USA:

- **High post-study salaries:** The US offers lucrative employment opportunities for graduates, especially in STEM fields. Indian graduates often find a career with attractive salaries, making investment in education abroad worthwhile.

- **Attractive labour market:** The US boasts a diverse and dynamic labour market with opportunities across various industries. Indian students, particularly those with STEM backgrounds, are in high demand due to their strong technical skills and knowledge, making it easier for them to secure employment post-graduation.

- **Stable geopolitical relationship with India:** The stable geopolitical relationship between the US and India fosters trust and collaboration, making it easier for Indian students to navigate visa processes and cultural adjustments. Additionally, diplomatic ties have resulted in favourable policies for Indian students studying in the US.

- **Low unemployment rates for postgraduates and STEM graduates:** The US has seen historically low unemployment rates for postgraduates and graduates in STEM fields. This provides a sense of security to Indian students pursuing higher education in the US, knowing that they have good prospects for employment upon graduation.

Low Unemployment rates with advanced education (% of total labour force with advanced education)

Country	2019	2020	2021	2022	2023
US	2.4%	5.6%	3.6%	2.3%	2.4%
Canada	4.4%	7.6%	5.9%	4.1%	4.2%
Australia	2.2%	4.1%	3.5%	NA	NA
Germany	1.8%	2.5%	2.4%	2.0%	NA

Note: Data for the UK is not available; Advanced education comprises short-cycle tertiary education, a bachelor's degree or equivalent education level, a master's degree or equivalent education level, or a doctoral degree or equivalent education level according to the International Standard Classification of Education 2011*; Source: World Bank, CRISIL MI&A*

- **Networking and professional opportunities:** Studying in the US exposes Indian students to a vast network of professionals, researchers and industry leaders. This facilitates networking and opens doors to valuable internship and job opportunities, further enhancing their career prospects.

Other countries such as Canada, UK, Germany, Australia, New Zealand and Ireland are fast becoming appealing destinations for Indian students, offering competitive education standards, welcoming immigration policies, and post-study work opportunities. The UK, for instance, to ensure international students attend their beginning days of schools and colleges, introduced Priority and Super Priority visas over regular visas to speed up processing for incoming students. Germany, for example, is increasingly favoured for its engineering and technology programmes, often offered at public universities with negligible tuition fees. On the contrary, Australia and New Zealand are popular for their high quality of life, lively student communities, ample job opportunities, and strong support systems for international students. This shift in destination preferences reflects the growing awareness and openness of Indian students to explore new horizons for their academic pursuits.

Share of countries in number of Indian nationals going abroad for education (per calendar year)

Countries	CY19	CY20	CY21	CY22	CY23E
US	20.9%	24.0%	28.1%	25.4%	27.9%
Canada	22.6%	16.8%	23.1%	24.8%	25.1%
UK	6.2%	17.3%	17.5%	17.7%	17.1%
Australia	12.6%	13.0%	2.0%	7.9%	10.0%
Germany	3.1%	3.8%	3.7%	2.8%	2.0%
Russia	2.8%	0.5%	3.6%	2.6%	1.3%
Bangladesh	2.3%	2.1%	2.4%	2.3%	2.4%
Singapore	2.6%	1.9%	0.6%	2.3%	1.8%
Kyrgyzstan	2.2%	0.3%	3.4%	2.0%	0.9%

Countries	CY19	CY20	CY21	CY22	CY23E
Ukraine	2.4%	2.6%	4.2%	0.3%	0.0%
China	3.3%	0.2%	0.0%	0.3%	1.1%
Philippines	2.3%	1.8%	0.1%	1.5%	1.2%
UAE	1.6%	1.1%	0.8%	0.8%	0.7%
France	1.4%	1.7%	1.2%	0.9%	0.8%
New Zealand	1.8%	2.0%	0.0%	0.2%	0.6%
Other countries	**11.9%**	**10.9%**	**9.3%**	**8.2%**	**7.0%**

Note: E: Estimated*; Source: Ministry of External Affairs, CRISIL MI&A*

CRISIL expects the number of students going to top 10-15 destinations for education to increase between calendar years 2023 and 2028, driven by the growth drivers listed earlier, especially favourable policies and increasing acceptance of Indian students.

Cumulative Indian population going abroad for education to cross 6.0 million between CY24-28

Worldwide & Top 10 countries	CY19 ('000)	CY23 Estimated ('000)	CY24-28P ('000)
Worldwide	**586.3**	**962.1**	**6,000-7,000**
Top 10 Countries			
US	122.5	268.9	1,750 – 1,850
Canada	132.6	241.6	1,550–1,650
UK	36.6	164.7	1,000–1,100
Australia	73.8	96.4	750–800
Germany	18.0	19.7	100–200
Russia	16.5	12.3	100-110
Bangladesh	13.4	22.9	180-200
Singapore	15.4	17.5	130-140
Kyrgyzstan	12.9	8.8	75-85
Ukraine	13.9	0.4	35-45

Note: P - Projected number of Indian students going abroad during CY24-28*; Source: MOSPI, Ministry of Health and Family Welfare, Ministry of External Affairs, CRISIL MI&A*

Average cost of education for students studying abroad

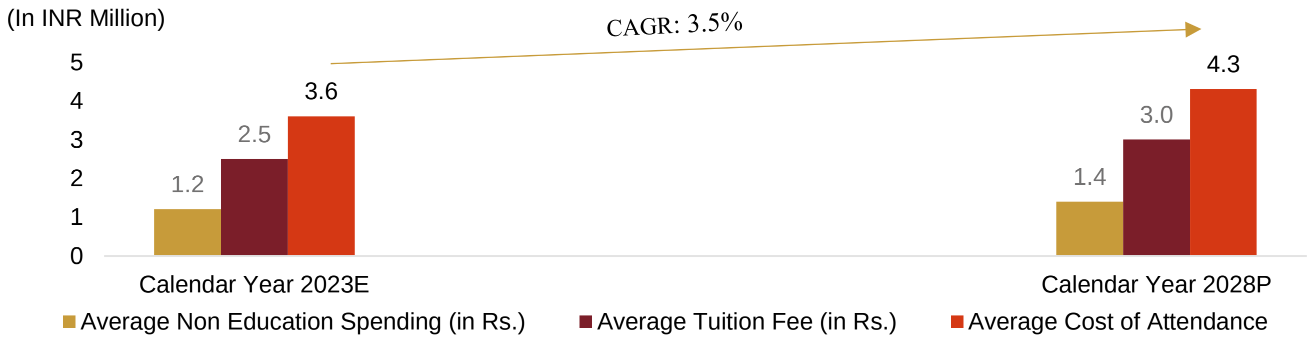
The average cost of education for studying abroad can vary significantly depending on the country, level of study, institution, duration of the programme and typically includes tuition fees, living expenses, accommodation, travel costs, insurance and other miscellaneous expenses. For example, studying in the US can range from $27,000 to $70,000 per year for tuition fees alone, not including living expenses. In countries such as Germany and Norway, public universities may offer tuition-free education for international students, but students still need to spend on living expenses. The table below shows the average tuition fee and cost of attendance (which includes tuition fee, room, boarding, meals and other expenses borne by students) in the top 15 countries pursued by Indians.

Average tuition fees per calendar year in top 15 countries for overseas students (CY23)

Tuition fees for CY23	Average tuition fee(Rs million)	Average cost of attendance (Rs million)
US	3.8 – 4.2	5.8 – 6.0
Canada	1.9 – 2.3	3.0 – 3.4
UK	2.3 – 2.7	3.6 – 4.0
Australia	1.9 – 2.3	2.7 – 3.1
Germany	0.9 – 1.3 **	1.5 – 1.9 **
Russia	0.3 – 0.5	0.6 – 0.8
Bangladesh	0.5 – 0.7	0.6 – 1.0
Singapore	1.8 – 2.0	2.5 – 2.9
Kyrgyzstan	0.3 – 0.5	0.4 – 0.6
Ukraine	0.2 – 0.4	0.3 – 0.6
China	0.3 – 0.35	0.4 – 0.5
Philippines	0.9 – 1.1	1.2 – 1.6
UAE	2.4 – 4.8	4.5 – 5.0
France	0.7 – 0.8	1.8 – 2.0
New Zealand	1.2 – 1.7	2.4 – 2.6
Average fee for top 15 countries	2.3– 2.5	3.5 – 3.7

*Note: Considers tuition fee for both undergraduate and postgraduate courses; **Considers tuition fee for private universities in Germany; Total cost of attendance includes tuition fee, room, boarding, meals and other expenses; Average Tuition Fee and Cost of Attendance is calculated as a sum product based on the proportion of students going abroad to these top locations; Source: University websites, Statistics Canada, Federal Ministry of Education & Research (Germany), CRISIL MI&A*

Average Annual Cost of Attendance for students to grow by ~3.5% between CY2023 & CY2028



Note: E: Estimated; P: Projected; Source: University Websites, Statistics Canada, Federal Ministry of Education & Research (Germany), CRISIL MI&A

Addressable market (cumulative spending on overseas education) for financiers between CY2024 and CY2028 estimated at Rs 44-45 trillion

Basis cumulative spending of students, CRISIL MI&A estimates the addressable market, which is the potential available for a lender focused on providing education loans to students going abroad, to be Rs 44-45 trillion between 2024 and 2028. The overseas education expenditure is currently estimated to have reached Rs 5-5.1 trillion annually in 2023 and projected to log a CAGR of ~17% to reach Rs 10.5-11.5 trillion by 2028. This market is expected to be driven by the increase in the number of students opting for education abroad and the rising cost of attendance. In the past, Universities have systematically raised course fees for international students above the rate of inflation. Going forward, CRISIL MI&A projects the average annual tuition fee to grow at 3.5-4.0% between 2023 and 2028, owing to continued rise in education inflation. Non-education expenses (room, boarding, meals and other expenses) are estimated to surge 3% during the same period.

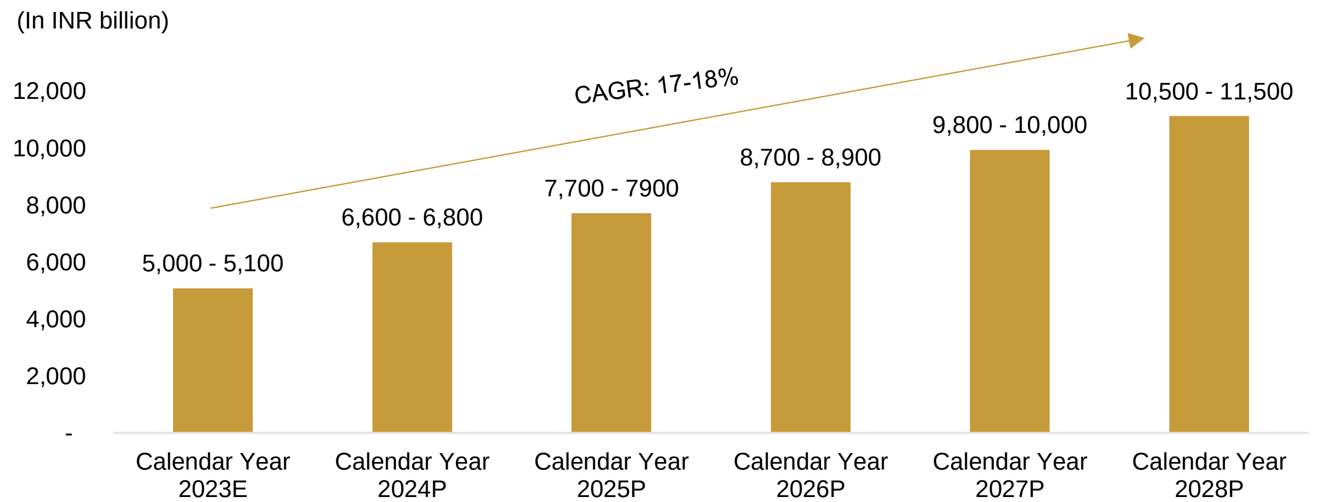
Estimated spending by Indian students on education per calendar year

CY23	Estimated spending by Indian students on education (includes tuition, boarding, lodging and meals) (Rs billion)
US	1,550 - 1,610
Canada	725 – 825
UK	600 – 650
Australia	250 – 300
Germany	30 – 37
Russia	7 – 10
Bangladesh	15 – 25
Singapore	45 – 50
Kyrgyzstan	4 – 5
Ukraine	0.1 – 0.2
China	4 – 5
Philippines	10 – 20
UAE	28 – 32
France	14 – 16
New Zealand	15 - 16

Note: The above data represents the estimated average spending of first year Indian student in a calendar year in the respective country

Source: Ministry of External Affairs, university websites, Statistics Canada, Federal Ministry of Education (Germany), CRISIL MI&A

Average Annual spending of students going abroad to grow by ~17% CAGR between CY2023 and CY2028



Note: E - Estimated; P – projected; The above data represents the estimated average spending of Indian student in a calendar year (it includes spending of first year students in the current year and spending of second year students from the previous year)*; Source: Ministry of External Affairs, university websites, Statistics Canada, Federal Ministry of Education (Germany), CRISIL MI&A*

Profile of students and households opting for overseas education

Students and households interested in overseas education tend to be motivated by a desire for academic excellence, cultural exposure, career opportunities and personal growth. They often possess the necessary academic qualifications, language proficiency, finance and family support to pursue overseas education. A general profile of such students and households:

- **Middle class:** Students from these households typically prefer STEM courses owing to higher employability and often rely on scholarships, financial aid or education loans from commercial banks/NBFCs in India to fund their studies overseas. On the lines of student loan programmes in various countries, the education loans offer low interest rates and defer repayment until securing employment after the competition of the course.

- **Upper middle class and the affluent:** This group is more inclined towards funding its overseas education either fully or partially to induce financial discipline, set up financial goals, build credit score, obtain tax benefits and reduce pressure on savings. These set of people are also open to explore courses beyond STEM and business disciplines and are also open to emerging educational destinations such as Germany for engineering, Ireland for technology programmes and other European (notably Italy and France) and Asian countries (such as Japan and Korea)

Sources of funding for overseas education

The sources of funding can vary in availability and accessibility depending on individual circumstances, academic achievements and the chosen destination for education.

Below are some of the common sources of funding explored by students for pursuing education abroad:

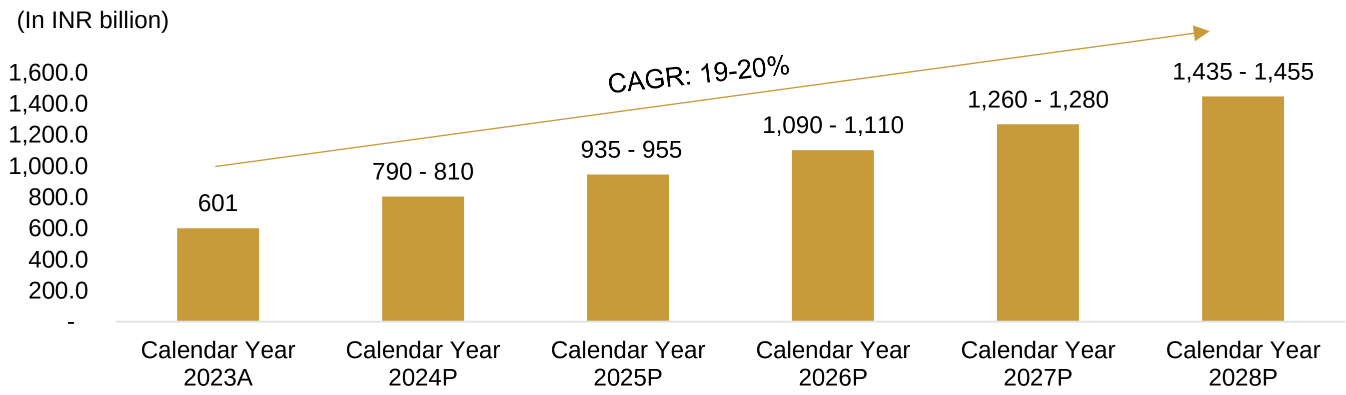
- **Personal savings and family support:** Families may save up over the years to fund their children's education abroad from their regular income, investments or dedicated education funds. Some students receive financial support from their families, relatives or sponsors to pursue education abroad.

- **Government sponsorship/ scholarships and grants/ employer sponsorship:** Students may apply for scholarships and grants offered by foreign universities, governments, non-profit organisations and private institutions, to offset tuition expenses. In certain cases, government-sponsored programmes or employer scholarships may be available to support students pursuing higher education abroad, particularly in fields deemed critical or strategic.

- **Education loans:** Many students, to cover tuition fees, living expenses and other related costs, opt for collateral and non-collateral-based education loans from banks or financial institutions. In the former, financiers typically accept property as collateral, while in the latter, underwriting is mainly based on the student's academic profile, parents' income, university, and the student's prospect of placements/ earning potential. These loans often have favourable terms and repayment options. CRISIL estimates 11-12% of students who pursue overseas education use such financing and going forward, CRISIL projects, such penetration in the overseas education market to increase to ~13% by the end of 2028.

Additionally, some countries allow international students to work part-time, helping them cover living expenses and reduce their dependency on other sources of funding while studying.

Incremental disbursements per calendar year estimated to grow 19-20% between CY2023 and CY2028

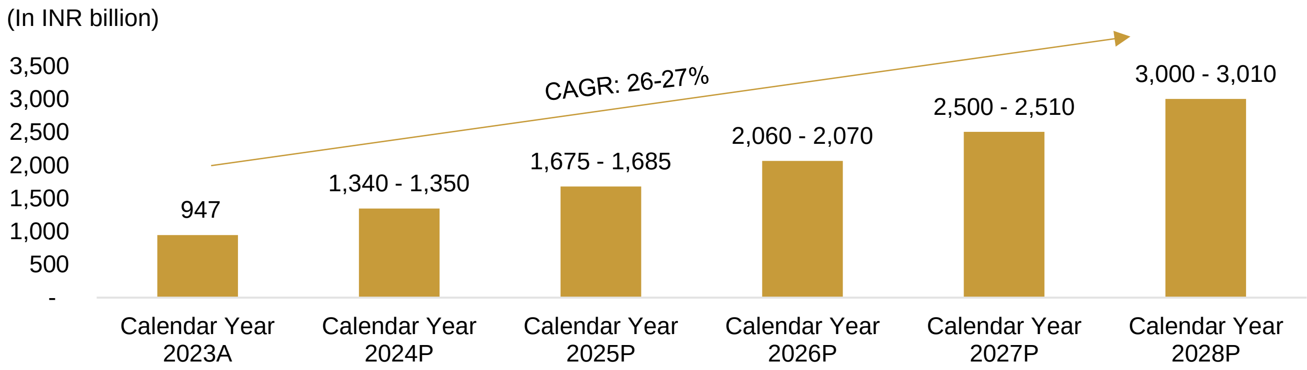


Note: A: Actuals; P – Projected*; Source: Ministry of External Affairs, university websites, Statistics Canada, Federal Ministry of Education (Germany), CRISIL MI&A*

Overseas-education loan portfolio to surpass domestic-education loan portfolio owing to rising demand

Opening of overseas borders for on-campus education and rising cost of education in foreign universities have led to exponential growth in overseas-education loans in India. Overseas-education loan portfolio witnessed an exponential 32.8% CAGR between 31st March 2019 and 31st December 2023 to reach Rs. 947 billion despite a slump during the pandemic, while the overall education loan portfolio grew 14% during the same period to reach Rs 1,655 billion. CRISIL MI&A expects growth momentum of overseas-education loans to continue going forward. Between calendar years 2023 and 2028, average tuition cost and average cost of non-education spending is estimated to log a CAGR of 3.5-4% and 3%, respectively. In turn, the overseas-education loan portfolio is expected clock a 26-27% CAGR during the period.

Overseas education loans portfolio is expected to cross ~Rs. 3.0 trillion as of 31st December 2028



Note: A: Actuals; P: Projected; A large number of students take Personal Loan/LAP from lenders to fund their education. However, this is not reported under education loan category in the credit bureau; Source: CRIFHighMark, CRISIL MI&A

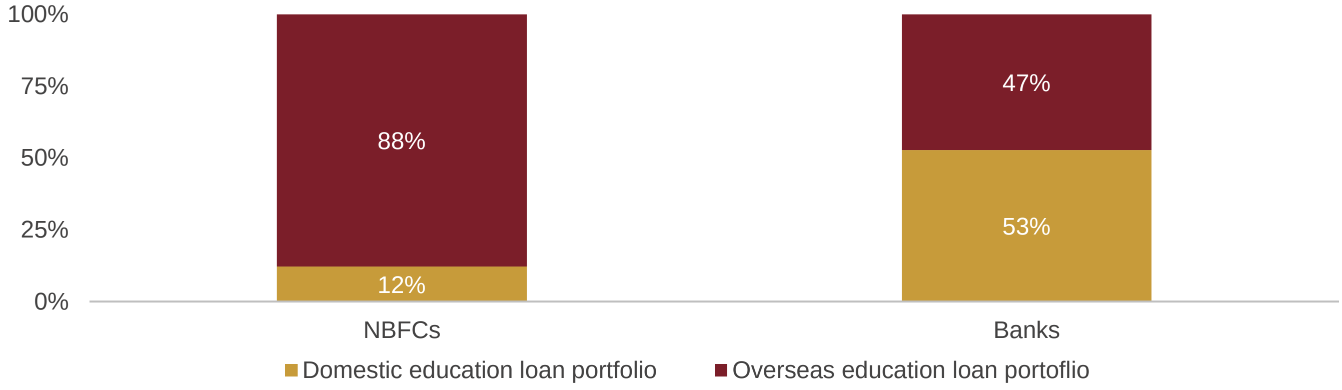
Overseas education loan dominates NBFC education loan portfolio

Education loans up to Rs 2.0 million fall under priority sector lending for banks. However, banks have a higher share of small-ticket education loans in their education loan portfolio as there is no need for security or guarantee for loans up to Rs 0.4 million as per RBI regulations. The RBI diktat, though, makes these loans riskier. In fact, some leading banks that were also offering collateral-free education loans higher than Rs 0.4 million saw high GNPA in their education loan portfolio in the past. Owing to this, banks have adopted a cautious approach in lending to stabilise their GNPA levels.

In contrast, NBFCs focus more on the higher end, preferring to disburse loans above Rs 1.0 million – their average ticket size is Rs 2.0-2.2 million. This gives NBFCs an opportunity to corner a majority share of the overseas education loan space. Moreover, overseas education loans generate good quality loan books thereby encouraging NBFCs to cater to this market.

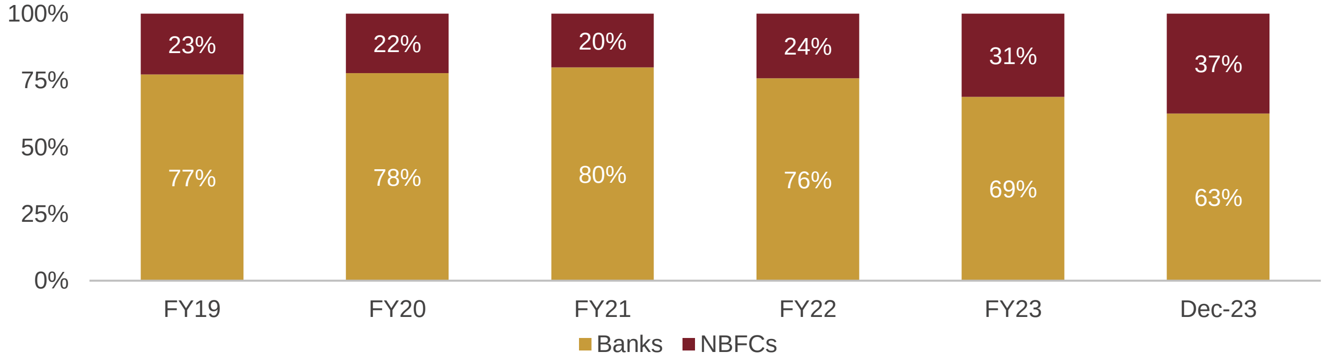
Further, education loans focused NBFCs have a differentiated distribution approach with a higher degree of reliance on education counsellors, DSAs, and digital channels as compared to a physical branch network which is predominantly required for other traditional loans such as mortgages, MSMEs and LAP. On the other hand, banks also leverage education counsellors, DSAs, and digital channels for sourcing students, however the reliance on branches to acquire customers is relatively higher for banks.

88% of NBFC portfolio comprised overseas education loans as of 31st December 2023



Source: CRIFHighMark, CRISIL MI&A

Share of NBFCs in overseas education loans rising rapidly



Source: CRIFHighMark, CRISIL MI&A

Further, in terms of product, banks typically prefer collateral-based loans, whereas NBFCs disburse non-collateral-based loans for overseas education. Some of the other factors that have enabled NBFCs to grow in the market are:

- **Customised loan products:** NBFCs often offer specialised loan products tailored specifically for funding education abroad. These products may include features such as higher loan amounts, lower collateral requirements and more flexible repayment terms catering to the unique needs of students studying overseas
- **Faster processing and quick TAT:** NBFCs often have streamlined processes and quicker TAT for loan approval and disbursement compared to banks. This agility can be beneficial for students who need timely financing to secure admission and meet visa requirements
- **Specialised underwriting:** NBFCs have customised loan options available based on future income assessment of students, unlike banks, making it easier for students with limited credit history or unconventional financial backgrounds to qualify for the loans. Further, education loan focused NBFCs on account of their niche focus have exhibited better underwriting capabilities as compared to Banks, which is witnessed in their asset quality as well.

- **Personalised customer service:** NBFCs typically offer more personalised customer service compared to large banks, providing dedicated support and guidance throughout the loan application and repayment process. This level of attention can be particularly valuable for students and their families navigating the complexities of international education financing

- **Innovative financing options:** NBFCs are known for their innovation in financial products and services. They may offer innovative financing options such as co-financing arrangements, providing alternative solutions for students seeking funding for their education abroad

- **Fewer stringent documentation requirements:** With all regulatory norms being followed, NBFCs require fewer documentation and paperwork compared to banks, simplifying the loan application process and reducing the administrative burden for students and their families

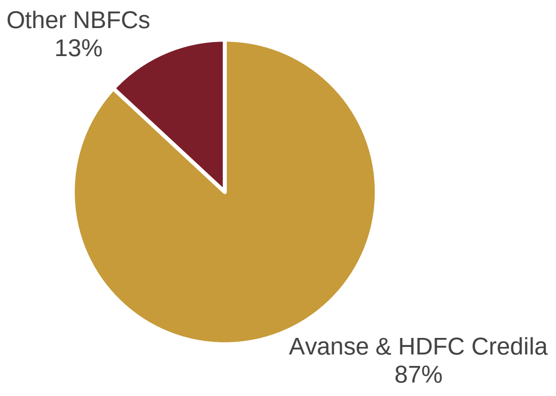
- **Value-added services:** NBFCs facilitate various value-added services through their partners, such as visa approvals, counselling, pre-sanction loan for students wanting to study abroad, financing the cost of living, and other costs such as that of books and laptops

- **Differentiated distribution approach:** Distribution approach of NBFCs in education loans lays more emphasis on non-physical touchpoints such as education counsellors, DSAs, and digital channels than the physical branch network.

Two NBFCs dominate the overseas education loan portfolio

As of 31st December 2023, HDFC Credila Financial Services (62%) and Avanse Financial Services (24%) dominated the NBFC education loan portfolio in terms of market share. Other key NBFCs in this space are Auxilo Finserve, InCred Finance, Prodigy Finance and MPower.

In terms of education loans AUM, HDFC Credila and Avanse held cumulative share of ~87% among NBFCs (December 2023)



Source: Public disclosures, CRIFHighMark, CRISIL MI&A

Role of education counsellors in overseas education

Education consultants and counsellors serve as trusted advisors and advocates for students pursuing overseas education and help them navigate the complexities of studying abroad to achieve their academic and personal goals. Their roles comprise:

- **Providing information and advice:** Counsellors provide information to students about various study options abroad, including universities, courses and countries, in addition to advice on academic requirements, application procedures, visa regulations and cultural considerations based on students' interest and financial profile.
- **Student assessment and matching:** Counsellors assess students' academic backgrounds, interests and career goals to help them choose the most suitable study programme and institution. They align students with universities that will help them with their aspirations and capabilities.
- **Application assistance:** Counsellors assist students throughout the application process, from filling out forms to preparing supporting documents and writing personal statements. They offer guidance on how to meet application deadlines and fulfil admission requirements.
- **Financial planning:** Counsellors help students understand the cost of studying abroad and explore available funding options, such as scholarships, grants and education loans. They advise them on obtaining the necessary financial documents required for visa applications.
- **Visa and immigration support:** Counsellors guide students through the visa application process, explaining the requirements, procedures and documentation. They help with accurate completion of visa applications and preparation for visa interviews as well.

- **Pre-departure preparation:** Counsellors help students prepare to live in a new country by providing information about its culture, customs and lifestyle. They offer guidance on accommodation options, travel arrangements, health insurance and other practical matters.

- **Emotional support:** Counsellors provide emotional support to students who may experience anxiety or stress, reassure them by addressing their concerns, answering questions and motivating them throughout the transition process.

Revenue model of education counsellors

Expenditure on counsellors for overseas education depends on the type of services provided and their level of expertise. Families that can afford spending on counsellors may invest significantly in hiring private educational consultants, who offer personalised guidance throughout the application process. Overall, the increasing demand for overseas education has led to a growing market for education counsellors in India, with spending varying based on individual preferences and financial capabilities. The counsellors for overseas education typically generate revenue through various means, which includes the following:

- **Consultation fees:** Counsellors charge students a one-time consultation fee for their services, which covers the initial assessment, advice and guidance provided on study options abroad, application process and other relevant information.

- **Application assistance fees:** Counsellors charge for assisting students with the application process, including filling forms, preparing documents, writing personal statements and submitting applications.

- **Visa and immigration services fees:** Counsellors charge for assisting and guiding students with the requirements, documentation, visa application procedures, interview preparation and immigration.

- **Test preparation courses:** Some education counsellors offer and charge for preparation of standardised tests that are mandatory to get an admission to universities or study programmes abroad, such as the Test of English as a Foreign Language (TOEFL), International English Language Testing System (IELTS), Graduate Record Examinations (GRE) or Graduate Management Admission Test (GMAT).

- **Placement fees:** Education counsellors often have partnerships or agreements with universities, colleges, language schools and other institutions abroad. They may receive commissions or referral fees from these institutions for admitting students or promoting their programmes.

- **Scholarship and financial aid:** Counsellors often assist students in finding scholarships, grants or financial aid to fund overseas education. They may charge fees for this service or receive commission from scholarship providers.

- **Value-added services:** Counsellors may offer and charge for additional value-added services to students, such as pre-departure orientation sessions, accommodation arrangements, travel planning and health insurance while abroad.

The proportion of placement fee can also depend on factors such as the level of service provided by the counsellor, the reputation and ranking of the university, the country where the university is located and the programme in which the student is enrolled. In some cases, counsellors may not charge a placement fee directly from the student but instead receive a commission or referral fee from the university for successfully recruiting students to their programmes.

Applicant evaluation by NBFCs for overseas education loans

NBFCs play a significant role in the overseas education loan category in India, providing alternative funding options to students seeking higher education abroad. They follow a comprehensive underwriting process to assess the creditworthiness of applicants and mitigate risks associated with financing education abroad by assessing:

- **Applicant's profile:** NBFCs evaluate the applicant's academic background, including transcripts, standardised test scores, such as GRE, GMAT, TOEFL, or IELTS, and admission status to a recognised institution abroad
- **Applicant’s financial stability:** NBFCs assess the financial stability of the applicant and their co-borrowers or guarantors (if applicable). This includes evaluating income sources, assets, liabilities and credit history to determine the borrower's ability to repay the loan. The NBFCs also assess the future income potential of the student based on the university and the course selection which aids in better underwriting and credit quality.
- **Course and institution selection:** NBFCs may have specific eligibility criteria regarding the course and institution selected by the applicant. They may prioritise financing for courses and institutions with a strong track record of employment outcomes and academic reputation
- **Loan amount and terms:** NBFCs determine the loan amount based on the cost of education, including tuition fees, living expenses, travel costs and other related expenses. They also establish the loan terms, including interest rates, repayment period and any collateral requirements
- **Risk mitigation measures:** Depending on the borrower's profile and the loan amount, NBFCs may require a collateral or co-signers in few cases as risk mitigation measures. Collateral could include tangible assets such as property, fixed deposits or liquid securities
- **Documentation and legal compliance:** NBFCs ensure that all necessary documentation, including application forms, KYC documents, income proof, academic transcripts, admission letters and loan agreements, are completed accurately and in compliance with regulatory requirements
- **Loan disbursement and monitoring:** Upon approval, NBFCs disburse the loan amount directly to the educational institution or the borrower as per the agreed terms. They may also have mechanisms in place to monitor the progress of the borrower’s studies and ensure timely repayment

Threats & Challenges for Financiers in the Overseas Education loan market:

Financiers in the overseas education loan market face several risks, which typically include the following:

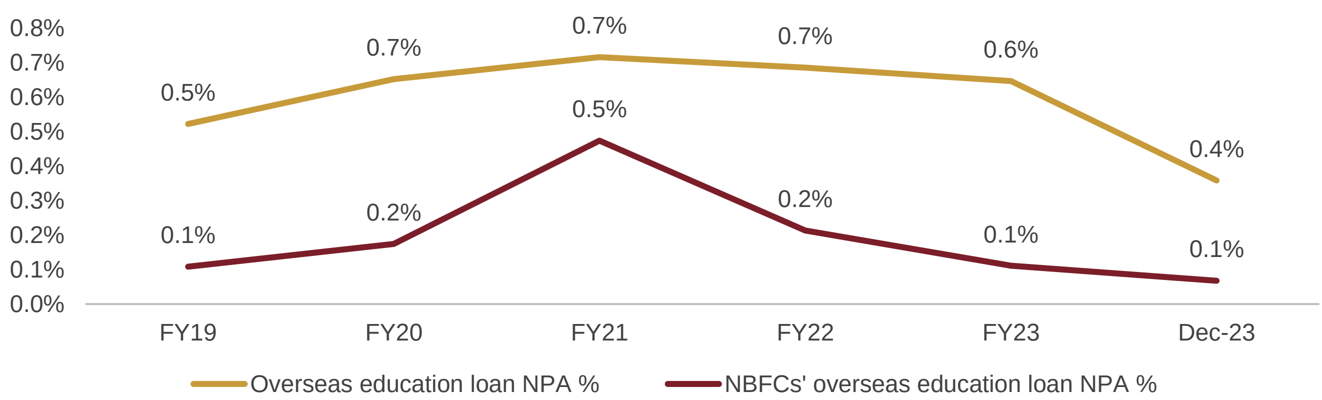
- **Student Mobility**: Stringent Visa norms can restrict the number of students who travel abroad for education, thereby affecting the demand for overseas loans.
- **Regulatory Risk**: Changes in regulations in either the home country or the host country can create an uncertainty and affect future planning for both students and financiers. For instance, changes in post-study work policies can impact the student's ability to repay loans.
- **Currency Risk**: Exchange rate fluctuations can affect the value of repayments, especially if loans are disbursed in one currency and repayments are made in another.
- **Economic Risk**: Economic downturns in the country of education can affect both the borrowers' ability to find employment and repay loans, and the financier's ability to collect loans.

Asset quality of overseas education loans steady

Despite high growth of overseas education loans, the asset quality in this asset class has remained benign so far, with low level of NPAs on account of the protective structural features underpinning these loans. Adequate risk classification of foreign universities (institute- and course-wise) and structured loan repayment terms have helped lenders to control NPAs.

For NBFCs, inherent structural features of the business model include compulsory co-borrower (a parent in most cases), focus on science, technology, engineering, and mathematics (STEM) courses that have better track record of employability, and structured repayment terms, with loans typically moving to full equated monthly instalment towards the end of the course and coinciding with job placement. These have supported the asset quality of the education loan portfolio of NBFCs so far, with the GNPA below 0.5% even during the peak of the pandemic.

Trend in GNPA of overall overseas education loans vs NBFCs overseas education loan



Source: CRIFHighMark, CRISIL MI&A

Borrower risk profile suggests lower probability of default in overseas education loans

In overseas education, the employment opportunity/placement of students is relatively better, which bolsters the economic profile of the student and, hence, the ability to repay the loan.

CRISIL MI&A estimates that a student typically earns Rs 0.8-1.0 million per annum after completing a graduate programme in India, However, upon completion of a post graduate course overseas, the earning potential rises 3-4 times, with these students potentially earning Rs 2.5-4.0 million. This has led to lower default rates among students studying abroad. Below table indicates the median wages of top three markets of the US, Canada and the UK:

Median wages in the US, Canada and the UK in CY2023

Country	Median wages (Rs)
US	4.0–4.5 million
Canada	3.5–4.0 million
UK	2.5–3.0 million

Source: US Bureau of Labour Statistics, Statistics Canada, Office for National Statistics, CRISIL MI&A

Owing to this, lenders are keen to pursue growth in the overseas education loan category, as the borrower risk profile is better, and the probability of default is very low in this category.

Some of the factors that contribute to the relatively low default rate in overseas education financing are:

- **Strong credit evaluation processes:** Financial institutions and loan providers often have stringent credit evaluation processes for international students, considering factors such as co-signers, collateral and repayment capacity, to minimise the risk of default
- **Aspirational students**: Overseas education loan borrowers are students aspiring to gain global exposure, higher salary and settle abroad
- **Parents/guardian are co-borrowers**: Students applying for overseas education loans need a co-borrower. The eligibility criteria for even the co-borrower have been put in place by lenders, such as the co-borrower should be an earning Indian citizen, parent or guardian of the student, and must have a bank account in India
- **Higher earning potential:** Graduates from reputable international institutions often command higher salaries, making it easier for them to repay their educational loans or debts
- **Stringent admission criteria:** Many overseas universities have a rigorous admission process, ensuring that students admitted are academically capable and motivated to succeed, reducing the risk of dropout or default

- **Career support services:** Foreign universities often provide robust career support services, including job placement assistance, internships and networking opportunities, which increase the graduate's employability and ability to repay their loans
- **International student support:** Many universities offer support services specifically tailored to international students, including financial counselling, part-time job opportunities and assistance with visa regulations, helping students effectively manage their finances
- **Customised financing options:** Students going abroad have the option to customize their education loans with flexible repayment options to meet their unique financial needs. Apart from education loans, they also have access to scholarships, grants and sponsorships, which reduces the likelihood of default due to financial constraints.

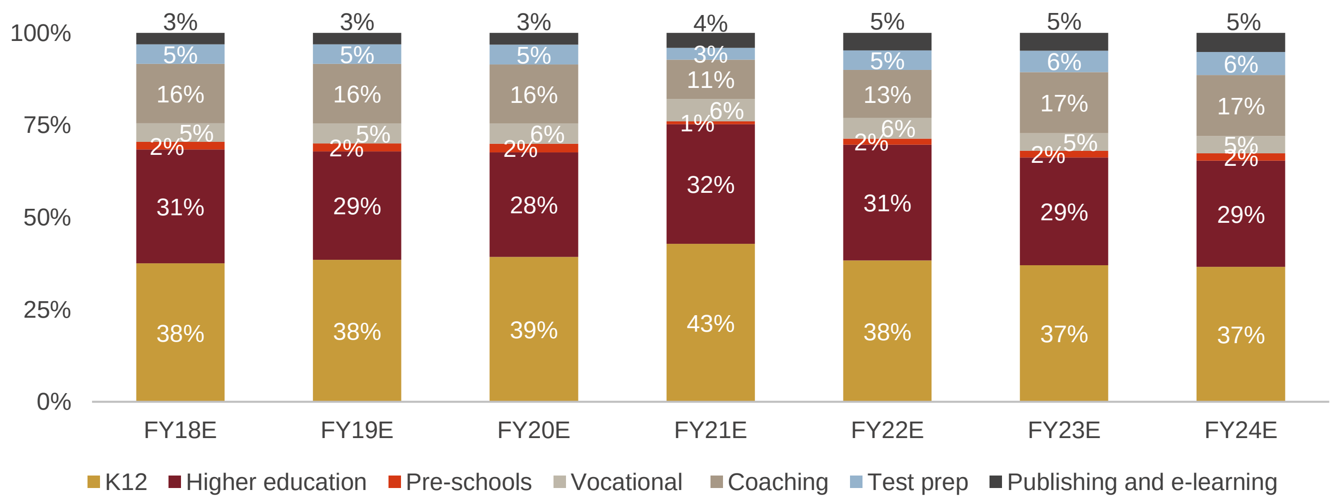
Overview of Overall Domestic Educational Services in India

Classification of domestic educational services

K-12 is the largest market in the Indian educational landscape and covers education from kindergarten to the 12th grade. The government offers aid to both public and private institutions to support education, while trusts, societies and other entities entirely oversee private institutions in the unaided sector. Higher education encompasses all courses offered after secondary school (grade 12), including traditional disciplines such as arts, science and commerce as well as professional fields such as engineering, management, medicine, teacher training, agriculture, polytechnics and research.

Coaching services cater to the demand for supplementary coaching in K-12 subjects, undergraduate and graduate programmes (collectively known as curriculum-based coaching) as well as preparation for competitive exams (referred to as test preparation coaching). The e-learning industry consists of companies offering multimedia content and digital tools to support education in schools (both public and private), colleges, training centres and for personal or corporate purposes. Vocational education involves providing industry-specific training to individuals in various fields such as nursing, medicine, retail, automotive, banking, financial services, information technology and information technology enabled services (IT-ITeS) and real estate. Publishing entails creating and promoting educational content, with some publishers also engaged in distribution activities.

Share of various categories over the past seven years



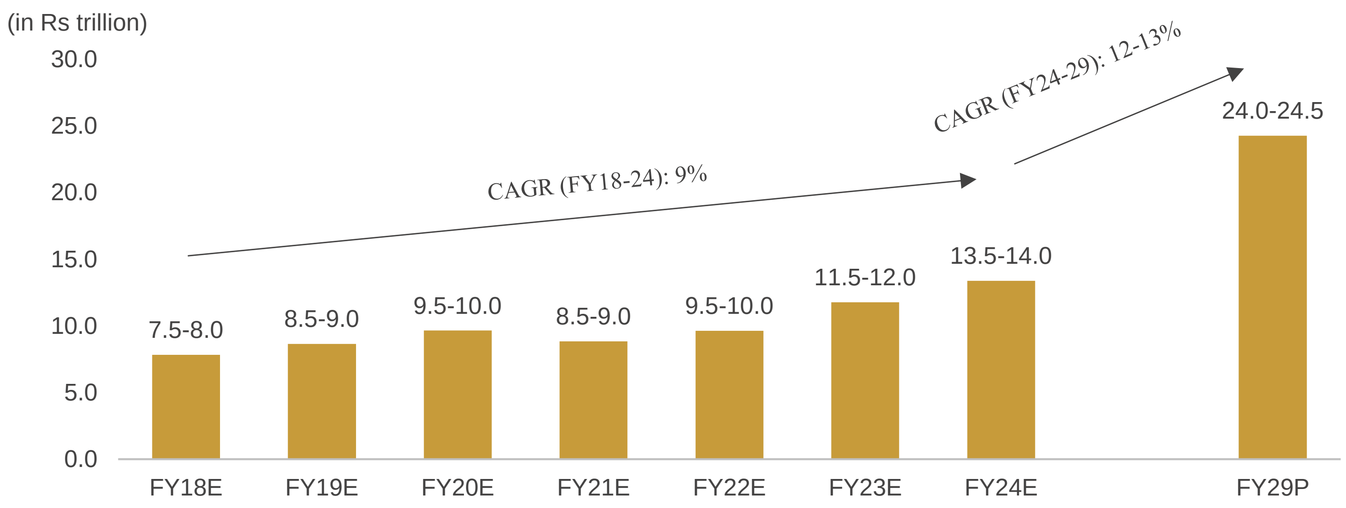
Source: UDISE+ reports, AISHE reports/data, AICTE, CRISIL MI&A

In the overall domestic educational services market, the formal sector, including K-12 and higher education, has consistently held a 65% share. Growth in the private unaided sector primarily drove the K-12 education market. However, informal sectors such as coaching, test preparation and E-learning have also evolved significantly due to technological advancements, rise of edtech companies and increased competition among students as well as institutions. Following the COVID-19 pandemic, coaching classes and test preparation services gained market share from formal education, while E-learning also experienced a surge in popularity. The market share of E-learning rose from 0.6% in fiscal 2018 to 3.0% in fiscal 2024, as educational platforms offered students extensive online and interactive learning resources during the pandemic. Additionally, government initiatives to provide free e-learning platforms such as Diksha, Swayam, and e-Pathshala also supported E-learning growth.

India's domestic education industry to grow at 12-13% over fiscals 2024-29

The Indian education sector was estimated at Rs 13.5-14.0 trillion in fiscal 2024. The industry is estimated to have grown at a compound annual growth rate (CAGR) of 9% over fiscals 2018 and 2024, and at 3-year CAGR of 15% between fiscals 2021 and 2024, primarily led by the formal category, owing to recovering demand after the pandemic. An increase in demand for coaching and test preparation and rise of edtech services also fuelled growth in fiscals 2023 and 2024. The education industry is expected to grow at a CAGR of 12-13% over fiscals 2024 to 2029, with its market size exceeding Rs 24.0 trillion led by strong demand from students, the projected rise in fees in both the formal and informal sectors, expansion of the e-learning market, increased demand for upskilling, growing interest in technology, increased household spending on education owing to rising disposable income, rising share of middle-class population and implementation of National Education Policy (NEP) 2020.

Domestic education market to cross Rs 24.0 trillion by fiscal 2029



Note: E: Estimated. P: Projected; Source: UDISE+ reports, AISHE reports/data, AICTE, CRISIL MI&A

Investments in the domestic education industry

India has one of the largest youth populations in the world that is fuelling the need for sustained investments in educational infrastructure and innovation. However, government expenditure is largely focused on maintenance of the existing infrastructure amid rising competition from global educational institutions, significantly limiting its ability to augment capacities. That said, private investments in the sector have been bolstered by the growing interest in e-learning, the emergence of edtech companies, improved infrastructure, and a supportive regulatory structure. Private equity (PE) investors and venture capitalists (VCs) have channelled significant funds into edtech firms offering E-learning and test preparation services. Moreover, the government's move to allow 100% foreign direct investment (FDI) in the education sector under automatic route and remove the need for prior approval from the Reserve Bank of India (RBI) or other government agencies has fuelled FDI inflows in the educational sector. According to the Department for Promotion of Industry and Internal Trade (DPIIT), India received a total FDI inflow of Rs 680.74 billion in the education sector from April 2020 to December 2023.

Some of the PE/VC investments in India's education sector

Investor	Year	Amount	Target company
HCL Group	2024	Rs 1.7 billion	Educational Initiatives (Ei)
GSV Ventures & WestBridge Capital	2022	Rs 7.8 billion	PhysicsWallah
UBS	2021	Rs 11.1 billion	Byjus
General Atlantic India	2020	Rs 14.4 billion	Byjus
Nord Anglia owned by Baring Private Equity Asia	2019	Rs 14.0 billion	Five Oakbridge K-12 schools
KKR	2019	Rs 14.8 billion	Lighthouse Learning (formerly Eurokids International)
Gaja Capital	2018	Rs 1.71 billion	Educational Initiatives (Ei)
Kaizen Private Equity	2018	Rs 2.5 billion	Toppr Technologies Pvt Ltd

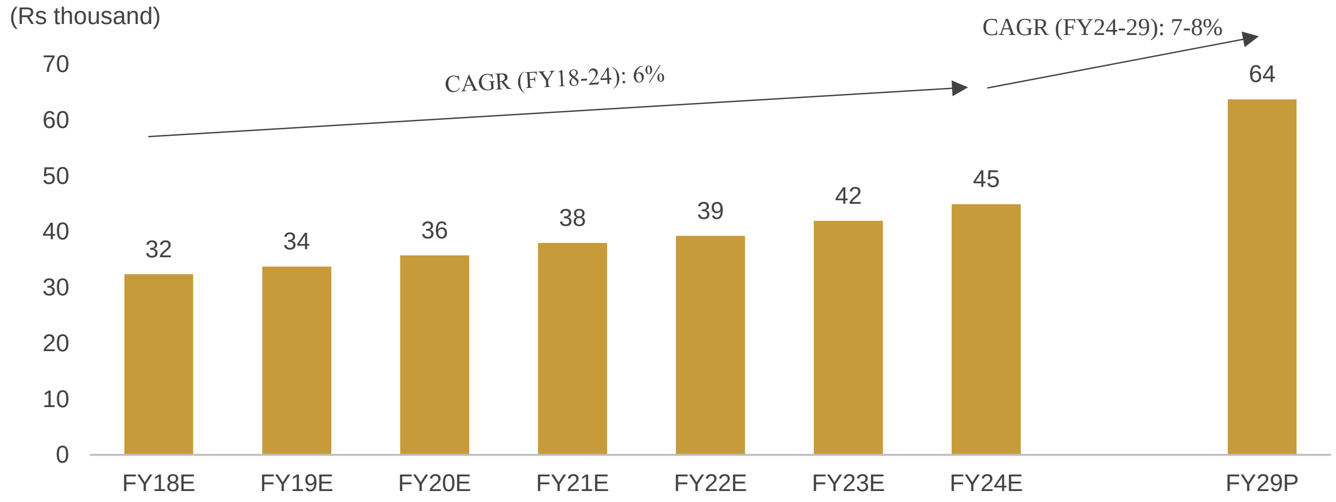
Note: For investment of $100 million by GSV Ventures & West Bridge Capital in PhysicsWallah in June 2022, a conversion rate of $1 = Rs 78 has been used. For investment of $150 million by UBS in April 2021, a conversion rate of $1 = Rs 74 has been used. For investment of $200 by General Atlantic India in Byjus in February 2020, a conversion rate of $1 = Rs 72 has been used; Source: Company reports, CRISIL MI&A

Investments are anticipated to surge further, driven by the country's rising need for improved educational services and proliferation of private players in an enabling regulatory environment. Further, the government's target to increase public expenditure on education to 6% of India's gross domestic product (GDP) under NEP 2020 will also support the sector.

Tuition costs continue to inch up in the domestic education market

Several factors such as educational infrastructure development, increasing demand for highly qualified faculty, rising faculty salaries, investments in technology to fund digital classrooms, e-learning resources and regulatory compliance to meet the accreditation standards of the National Assessment and Accreditation Council (NAAC) and various other quality assurance measures add up the capital costs of domestic educational institutions. Hence, tuition costs have been rising across India. These costs are also surging across the globe as colleges are increasingly investing in providing a wholesome educational experience to students and standing out among their international peers. Spending in colleges on amenities such as stadiums, gyms, cafeterias and healthcare centres has increased infrastructure and staff costs, thereby driving up the tuition fees for students.

Average tuition fee rose from ~Rs 32,000 in fiscal 2018 to more than Rs 45,000 in fiscal 2024



Note: E – estimated, P - projected. Domestic education tuition fees include weighted average tuition fees of K-12, higher education, pre-school, vocational, coaching, test-prep, publishing, and E-learning sectors; Source: University websites, CRISIL MI&A

Growth drivers of Indian domestic educational services

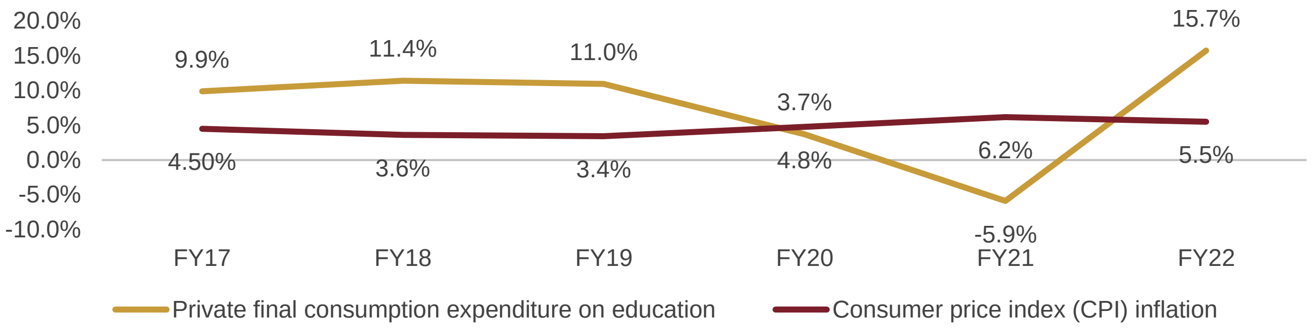
Rising middle-income household category

CRISIL MI&A forecasts India's middle-income households (also known as the Middle India category), with an annual income of Rs 0.2-1 million, will increase to 181 million by fiscal 2030 from 41 million in fiscal 2012, led by sustained growth in GDP and household income. CRISIL MI&A believes that access to information and basic necessities and internet penetration will fuel the aspirations of Middle India and will translate into increased spending on education.

Household spending on education to rise substantially

Rising disposable income would increase household spending in all categories, especially education. Indian households earmark a large portion of their monthly income to provide quality education to their children. The private final consumption expenditure on education rose at a 5-year CAGR of 6.9% over fiscals 2017-2022 and 3-year CAGR of 4.2% over fiscals 2019 to 2022, while Consumer Price Index (CPI) inflation clocked a 5-year CAGR of 4.7% and 3-year CAGR of 5.5%. Further, it grew robustly at 15.7% on-year in fiscal 2022, whereas average CPI inflation grew ~5.5%.

Rising private final consumption expenditure on education vs CPI Inflation



Source: The Ministry of Statistics and Programme Implementation (MoSPI), World Economic Outlook Database of April 2024 by International Monetary Fund (IMF), CRISIL MI&A

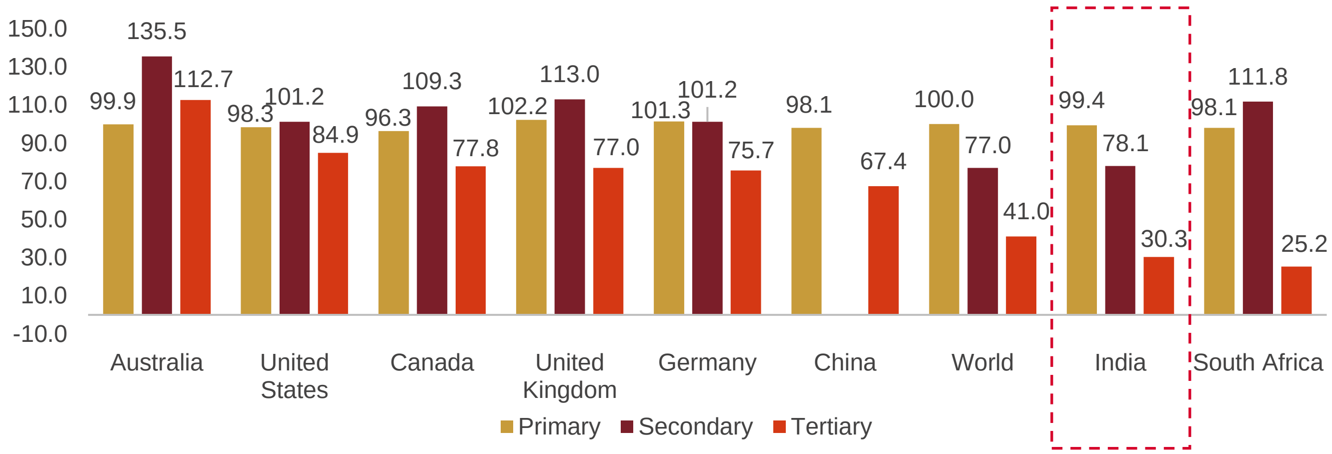
Demographic profile

As of 2023, India had one of the largest populations of youth in the world, with a median age of 28 years. CRISIL MI&A estimates that ~90% of Indians were below 60 years in 2021 and 63% were between 15 and 59 years. More than 38% of India's population was under the age of 19, indicating a massive demand for education at all levels. By 2025, India is expected to have the largest population in the age group of 15-29 years, i.e., ~367 million, accounting for ~26% of total population.

Lower gross enrolment ratio provides opportunity for growth and expansion

The United Nations Educational, Scientific and Cultural Organization (UNESCO) defines gross enrolment ratio (GER) as the total enrolment in a specific level of education, regardless of age, expressed as a percentage of the eligible official school-age population corresponding to the same level of education in a given school year. A GER below 100 means a gap in access to education, whereas a GER above 100 means inclusion of over-aged or under-aged students and grade repetition. As per the World Bank, India has a low GER compared with Australia, the US, Canada, the UK, China and South Africa. At the tertiary education level, India has a lower GER than most of the countries. This implies reduced participation of the Indian population in pursuing education compared with other countries.

India’s GER vs peer countries (calendar year, CY, 2021)



Note: GER for secondary education in China is not available; Source: World Bank, CRISIL MI&A

GER in the K-12 market has typically remained higher in India, with GER of primary, upper primary, elementary and secondary education being 103%, 95%, 100% and 78%, respectively, as of fiscal 2022, reflecting better access to education at the primary level. GER of secondary and senior secondary schools is comparatively low at 80% and 58%, respectively, indicating dropout rates are higher after completing secondary education. GER of higher education, although increased from 24.6% in fiscal 2018 to 28.4% in fiscal 2022, remains very low, reflecting lack of access to higher education institutions (HEIs) and inadequate education infrastructure. However, a low GER in India signifies the vast population eligible for formal education, creating tremendous opportunities for industry players, including private players, the government and lenders offering education loans.

Trend in GER at K-12 and higher education levels between calendar years 2018 and 2022

Education level	Category	GER					Enrolments in 2021-22 (million)
		2017-18	2018-19	2019-20	2020-21	2021-22	
Primary	Primary schools	102.8	101.3	102.7	103.3	103.4	121.8
	Upper primary schools	88.3	87.7	89.7	92.2	94.7	66.8
	Elementary schools	93.0	96.1	97.8	99.1	100.1	188.6
Secondary	Secondary schools	79.4	76.9	77.9	79.8	79.6	38.5
	Sr. secondary schools	56.5	50.1	51.4	53.8	57.6	28.6
Tertiary	Higher education	24.6	24.9	25.6	27.3	28.4	25.8
Average GER of all categories		**88.5**	**88.6**	**90.1**	**91.3**	**92.0**	**470.2**

Note: Average GER at an overall level is calculated as subproduct of GER and enrolment across primary, secondary and tertiary education levels

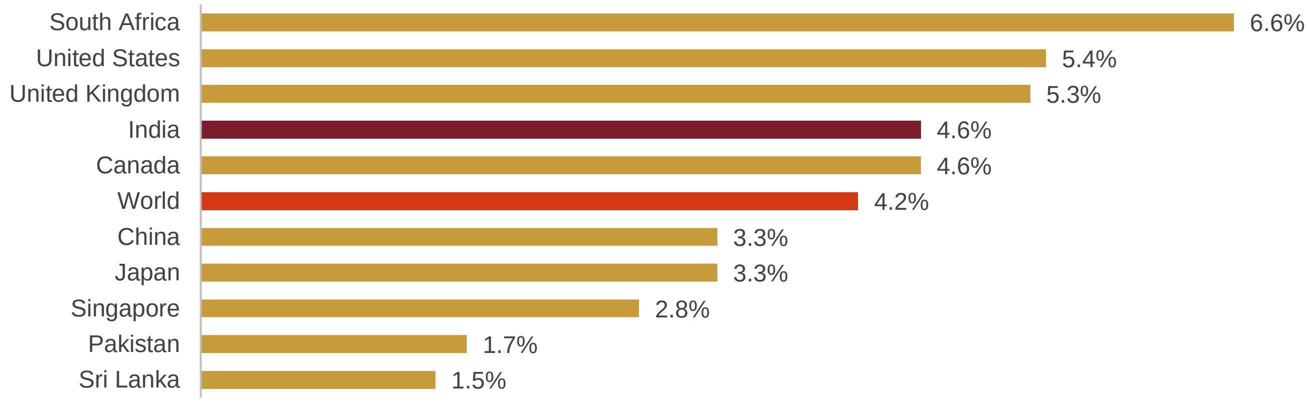
Source: UDISE+ Report 2021-22, Ministry of Education; Economic Survey 2022-23, Ministry of Finance, CRISIL MI&A

India, with its low GER and as the world's most populous, offers significant growth opportunity for its education industry. Achieving the goal of 100% GER in school education by 2030 and 50% GER in higher education by 2035, as envisaged in India's National Education Policy (NEP) of 2020, calls for substantial public and private investments in educational services and infrastructure. Further, a low GER also creates an opportunity for market participants to reduce dropout rates by improving the quality of education, building and enhancing education infrastructure, and addressing socio-economic disparities. The government also needs to implement effective policies and reforms to address the issue.

Government expenditure on education to drive further growth in Indian education market

The education sector is a good proxy for a country's economic growth as well as its social transformation. Expenditure for education is seen more as an investment for the future. India's expenditure on education as a percentage of GDP was 3.9-4.6% between CY2014 and CY2021, above the world average of 4.2%.

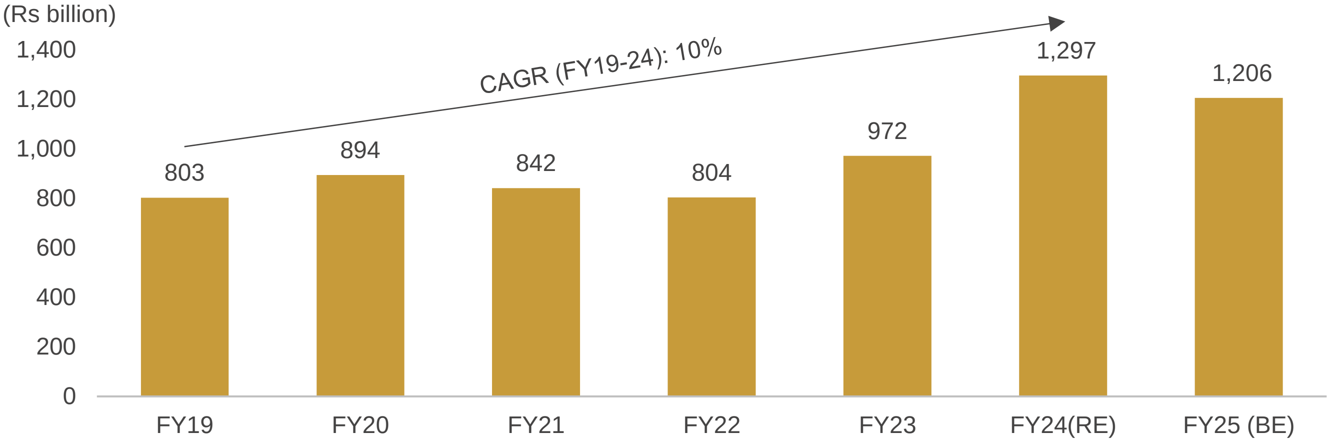
Public education expenditure (as a percentage of GDP) on par with the rest of the world (CY21)



Source: World Bank, CRISIL MI&A

The Ministry of Education (MoE)'s expenditure on education increased at a 5-year CAGR of 10% over fiscals 2019-24 and 3-year CAGR of 15.5% over fiscals 2021 and 2024. K-12 continues to dominate the ministry's budget allocation for education with a share of more than 60%. The MoE allocated ~Rs 730.08 billion for K-12 education and ~Rs 476.20 billion for higher education in Interim Budget 2024-25. For the Indian economy to grow at a higher rate on a sustainable basis, it is imperative for the government to invest in the health and education of its young population, primarily through budgeted expenditure.

MoE's education expenditure clocked a 10% CAGR between fiscals 2019 and 2024



Note: RE: Revised estimate, BE: Budgeted estimate; Above data includes both state and central government expenditure.

Source: Ministry of Human Resource Development, Government of India

Despite reasonable spending, public education expenditure has been inadequate to generate the desired outcomes. While the ensuing growth in adult literacy levels in India during CY2014-CY2022 (69.3-76.3%) has been inadequate to bring the literacy levels closer to the world average of 87%, the rising trend in literacy rate indicates significant potential in the education sector.

NEP 2020 to transform the Indian education market

The NEP, announced by the government in 2020, aims to bring about a substantial transformation in education and make India a global knowledge superpower. It further aims to provide high-quality education to everyone through a system entrenched in Indian philosophy that directly contributes to transforming India into an equitable and vibrant knowledge society over time.

Impact on domestic education market

- **Restructuring of school education**: The implementation of NEP in 2020, introduced a new four-stage structure to ensure a strong base of early childhood care and education (ECCE) and better development of a student
- **PM SHRI**: The PM Schools for Rising India (PM SHRI) initiative was taken under NEP 2020 for developing 14,500 PM SHRI schools, managed by the government or local bodies. This scheme is to be implemented over five years (fiscals 2023-27). A total of 6,448 schools were covered in the first phase of this scheme.
- **NIPUN Bharat**: In 2021, the Department of School Education and Literacy, MoE, launched the National Initiative for Proficiency in Reading with Understanding and Numeracy (NIPUN Bharat) scheme, to achieve the NEP 2020 objective of providing foundational literacy and numeracy to every student by the end of grade 3, by 2026-27.

- **NDEAR**: To facilitate achieving the goals set up by NEP 2020, the MoE launched the National Digital Education Architecture (NDEAR) in 2021, aimed at creating digital infrastructure for the education ecosystem. The government has launched various projects under this initiative, such as **Digital Infrastructure for Knowledge Sharing (DIKSHA)**, which provides multiple E-learning assets for students.

- **Vidya Samiksha Kendra (VSK):** A comprehensive system developed for all stakeholders in the education industry to facilitate visibility of aggregate data of various schemes under NEP 2020 through centralised and localised dashboards to help stakeholders in leveraging updated data and taking informed action in the education ecosystem.

- **Vidyanjali 2.0:** To promote the involvement of community and the philanthropic sector in achieving the goals of NEP 2020, the MoE launched the Vidyanjali initiative in 2021 aimed at connecting schools with young professionals, retired teachers and government officials, NGOs, corporates, public & private companies, etc.

- **ITEP**: The Integrated Teacher Education Progamme (ITEP) aims to prepare teachers for the new four-stage school structure: foundational, preparatory, middle and secondary, wherein all the students who want to opt for teaching as a career after secondary education can avail the course.

- **Entry and exit options**: Under NEP 2020, the University Grants Commission (UGC) provided guidelines for multiple entry and exit options in education programmes offered by HEIs to create new opportunities for students to choose a subject of their own choice and provide flexibility to students in learning and choosing their own academic pathway. This has helped the government in curbing the dropout rates of students and, thereby, improving the GER.

- **Transformation of HEIs into large multidisciplinary universities:** NEP 2020 focus on moving towards a higher education system consisting of large multidisciplinary institutions offering both undergraduate and post-graduate courses in various fields with high-quality teaching and research facilities. The policy further provides for establishment of such multidisciplinary HEIs in underserved regions, ensuring accessibility, equity and inclusion.

Impact on overseas education market

- **'Internationalisation' of education:** NEP 2020 emphasises internationalisation of education by making the Indian education system more self-reliant and compliant with the global education standards and norms. It focuses on collaborations with foreign universities, student exchange programmes with high-quality foreign institutions, and mutually beneficial memorandums of understanding (MoUs) or agreements with foreign countries for educational purposes. This would improve the ratings of Indian universities, as well as the standing of the Indian education system at the global level. With enhanced recognition of the Indian education system, students of India will become more acceptable at foreign universities, improving the accessibility to foreign universities for Indian students will also increase. NEP also provides for facilitating the entry of high-performing foreign universities in the world into India by way of establishing a legislative framework. In this context, the UGC notified guidelines in November 2023 for setting up foreign university campuses in India. To be eligible for setting up a campus in India, the foreign HEI must be ranked among the top 500 universities in the world or in a specified subject according to a list approved by UGC.

- **Academic collaboration between Indian and foreign higher educational institutions:** In May 2022, the UGC published regulations on academic collaboration between Indian and foreign higher educational institutions to offer twinning, joint degree and dual degree programmes. The regulations provide for internationalisation of education, global exposure to students, multi-disciplinary education with a relevant foreign curriculum, enhanced employability in foreign countries, and improving the standing of Indian universities.

- **MOU on mutual recognition of qualifications with Australia and the UK:** In March 2023, a framework mechanism for mutual recognition of qualifications was signed between India and Australia to enable ease of mobility of students and professionals between the two countries. The said MoU will facilitate Indian students to study in Australian universities and avail joint/dual degrees envisaged under NEP 2020. In July 2022, India and the UK signed an MoU for mutual recognition of each other's higher educational qualifications, thereby promoting mobility of students between the two countries. With the aforementioned MoUs in place, India is in a better position to enter into similar agreements with other countries, thus increasing the accessibility of Indian students to pursue education abroad.

Increased demand for upskilling to remain relevant and productive

With increased usage of advanced technology such as machine learning (ML) and artificial intelligence (AI), and a gradual replacement of traditional jobs with more sophisticated ones, demand for upskilling is on the rise as professionals are required to stay in line with latest industry trends and be future-ready. With India being one of the fastest-growing economies in the world, it would need to continuously invest in upskilling its population. To drive further growth in training and skill development, the Government of India has taken several initiatives, including:

Scheme	Implication
National Apprenticeship Promotion Scheme 2 (NAPS 2):	Scheme launched to develop a skilled workforce, provide upskilling opportunities to candidates who have undergone training under any central/state government scheme, and provide partial stipend support to apprentices
Pradhan Mantri Kaushal Vikas Yojana (PMKVY):	Launched by the Ministry of Skill Development and Entrepreneurship (MSDE) to provide Indian youth with access to industry-relevant skill training
Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY):	Skill training and placement programme launched by the Ministry of Rural Development (MoRD) that provides industry-relevant skill training, placement assistance, post-placement support, career progression support, and incentives for higher placement to rural youth aged 15 to 35 years
Pradhan Mantri YUVA Yojana (PM YUVA):	This scheme facilitates entrepreneurship training and education in Industrial Training Institutes (ITIs), National Skill Training Institutes (NSTIs), Pradhan Mantri Kaushal

Scheme	Implication
	Kendra Training Centres (PMKKs), polytechnics and Jan Shikshan Sansthan (JSS) to create an ecosystem for entrepreneurship development

Rapid growth in e-learning led by government initiatives

The Indian government is committed to providing education and learning opportunities to all citizens, regardless of their geographical location, including remote areas of the country. To fulfil its commitments to education for all under NEP 2020, the government has been establishing a robust digital infrastructure capable of seamlessly facilitating online learning for all. Some of the initiatives taken by the government to promote E-learning in India are as follows:

Scheme	Implication
Study Webs of Active Learning for Young Aspiring Minds (SWAYAM)	A free of cost online learning programme launched by the government to achieve access, equity and quality in learning for all
National Digital Library of India (NDLI)	A virtual repository of E-learning resources sponsored by the Ministry of Education, with resources such as e-books, video lectures, presentations, simulations and question papers in 10 well-known languages of India. It also provides services such as exam preparation for students and job aspirants from the primary to post-graduate levels
ePathshala	It is an online portal as well as a mobile app that provides students and teachers with access to e-learning resources, exhibitions, festivals, contests and workshops. It also provides educators and parents with curricular documents and learning outcomes
National Programme on Technology Enhanced Learning (NPTEL):	It is an online learning initiative by Indian Institute of Technology (IIT) and Indian Institute of Science (IISc), funded by the Ministry of Education. The platform provides online courses and lectures in various streams such as engineering, science, management and humanities

The market for online education is expected to expand quickly due to advancements in network infrastructure, higher penetration, lower mobile data tariffs and the proliferation of low-cost data handsets. Moreover, emerging technologies such as ML, AI, virtual reality and robotics have uncovered several opportunities in the education industry and have impacted all stakeholders. The penetration of e-learning services in India is set to deepen with schools seeking competitive advantage and new product offerings. Increasing demand for e-learning has led to significant growth in India's edtech industry as well, particularly after the Covid-19 pandemic. Factors such as rising internet and smartphone penetration, increase in data consumption, and demand for a young skilled workforce are driving the growth of edtech companies.

Players in the test preparatory space have also introduced digital products such as recorded content, with some institutes also introducing live/online classroom courses to enable live interactive sessions that can be accessed remotely. The digital medium can help coaching institutes expand their geographical reach and enhance the share of e-learning in the test preparatory space, which is growing at a robust pace.

CRISIL believes demand for online learning has surged due to the following:

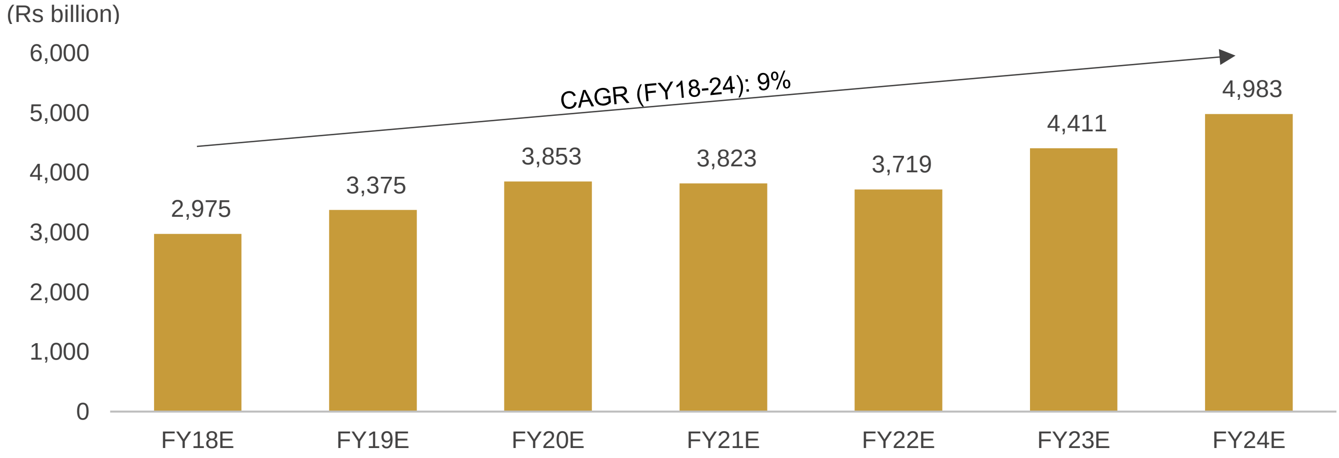
- Online courses are more affordable than traditional classes, enabling students across economic backgrounds to access knowledge at reduced costs
- E-learning platforms provide a large variety of courses, including several unconventional or offbeat courses otherwise not available in traditional settings. This enables students to choose unique course aligned with their interests
- Employees are leveraging online degrees and certifications to advance their careers and stay up to date with the latest industry trends and technologies
- Digital platforms enable teachers to deliver lectures in the most efficient and unique ways by using digital tools such as images, videos, podcasts and presentations
- Students can attend online classes or courses at their preferred time
- Personalised learning is gaining popularity in e-learning as it enables students to modify educational content, curriculum and teaching methods as per their requirements, goals and learning styles. Personalised learning leads to increased student engagement and improved learning outcomes
- Other benefits of online learning include better collaboration with domestic and foreign peers, effective virtual communication, development of new technical skills, access to global learning platforms and immediate feedback

Assessment of India's K-12 education market

K-12 market holds the largest share in India's education industry

India's education industry (household expenditure on education) is estimated at Rs 13.5-14.0 trillion for fiscal 2024, with the formal K-12 market cornering the largest share of 37%. Growth in the K-12 market was due to rising enrolments, increasing government expenditure on education, policy initiatives by the government, and adoption of technology by schools. Private unaided schools led the growth in the K-12 market. In fiscals 2021 and 2022, on-year growth in the K-12 market due to the shutdown of schools during the Covid-19 pandemic and a decrease in enrolments in private schools. Moreover, since the pandemic, students are increasingly opting for coaching, test preparation and e-learning. Due to rising demand for informal sectors in the education industry, the K-12 market's share declined from 43% in fiscal 2021 to 37% in fiscal 2024 wherein the share has moderated to pre-Covid levels of ~38% in fiscal 2018 and fiscal 2019.

K-12 market growth accelerated in fiscals 2023 and 2024 after muted growth during pandemic



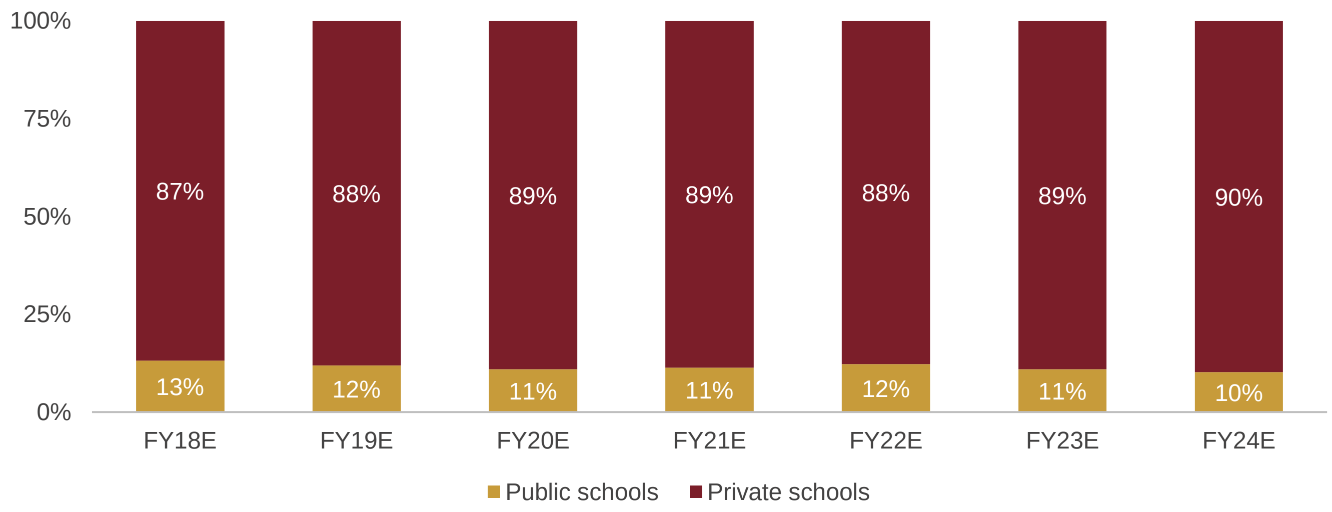
Note: E – estimated; Source: UDISE+ reports, AISHE reports/data, AICTE, CRISIL MI&A

Growth in K-12 market driven by private unaided sector

The K-12 market comprises private aided and unaided, and public/government sector for estimation of market size and growth prospects. While the government provides support to the public and private aided sectors in the form of financial and non-financial aid, the private unaided sector is run and managed wholly by trusts/societies and private entities. The K-12 market is estimated at Rs 5.0-5.2 trillion for fiscal 2024, up 13-14% on-year driven by the private unaided schools.

Private schools typically have a good liquidity position. Public sector schools, typically serving students from households with limited financial resources are managed by state governments working with local bodies. Public schools' sluggish capacity expansion has led to a surge in enrolment in private schools, particularly at the primary level. This growth in private sector schools is also supported by growing awareness and the desire for high-quality education among households in the middle class and above. With increasing demand for private schools, and the corresponding investment by the private sector in new K-12 establishments, private unaided schools will continue to drive growth of India's K-12 market.

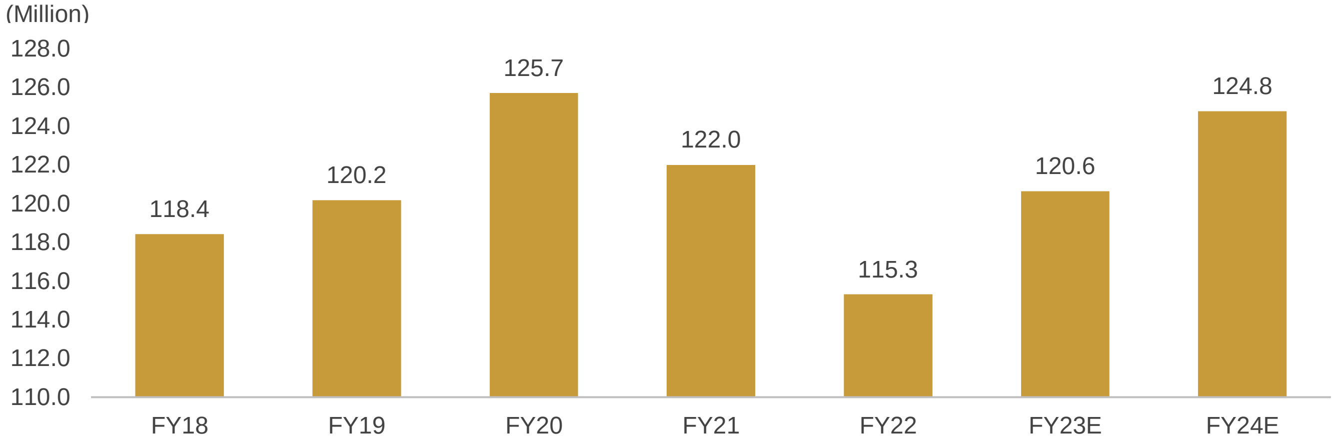
Private sector constituted 90% of India's K-12 market as of fiscal 2024



Note: E – estimated*; Source: UDISE+ reports, AISHE reports/data, AICTE, CRISIL MI&A*

Private schools in India witnessed growth in the number of enrolments between fiscals 2018 and 2024 owing to growing demand for high-quality education among the middle-income population. The number of private enrolments increased from 118.4 million in fiscal 2018 to 125.7 million in fiscal 2020. However, during the Covid-19 pandemic, private schools bore the brunt of lockdowns, with many either suspending operations or closing entirely. The number of private schools reduced from 3,37,499 in fiscal 2020 to 3,35,726 in fiscal 2022, due to which private enrolments also declined from 125.7 million to 115.3 million. In fiscals 2023 and 2024, private enrolments bounced back due to increased demand for private schools offering new-age technology such as smart classes and E-learning resources, advanced teaching methods, a variety of courses, and an advanced curriculum to prepare students for the future. The rising trend of private enrolment is expected to continue in the long term.

Private enrolment increased after temporary degrowth due to pandemic



Note: E – estimated; Source: UDISE+ reports, CRISIL MI&A

Domestic Higher Education Market in India

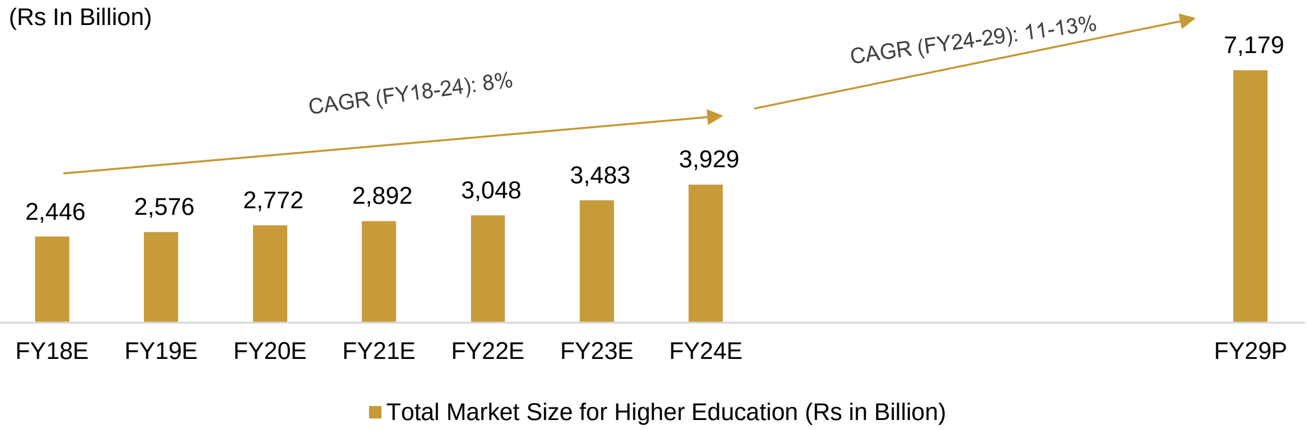
Domestic higher education market in India is expected to grow at 11-13% between fiscals 2024 and 2029

The definition of higher education includes all courses offered post the higher secondary level (standard XII), and comprises conventional courses across streams such as arts, commerce, science, and professional courses such as engineering, technology, management, law etc. It also comprises medical courses and specialised courses in agriculture, social sciences, design etc. The Domestic higher education market is estimated to be worth Rs 3.9 trillion as at end of fiscal year 2024. Between fiscals 2018 to 2024 the market is estimated to have grown at CAGR of 8% and a 3-year CAGR of 11% between fiscal 2021 and 2024 (while the overall domestic education market is estimated to have grown at a CAGR of 9% between fiscal 2018 and 2024, and a 3-year CAGR of 15% between fiscals 2021 and 2024).

However, CRISIL believes that concerted efforts from the supply-side (including private players, government, financial institutions etc.) to achieve the National Education Policy's objective of reaching 50% GER by 2035, will lead to a higher education enrolment rate going forward and drive market expansion. CRISIL projects the higher education market to grow at a CAGR of 11-13% between fiscal 2024 to 2029. Some of the demand side factors that would support the growth in higher education market include **demographic profile,** g**overnment policies, rising aspirations** - Growing aspiration among Indian youth for pursuing higher education to improve career prospects, socio-economic status and quality of life

- **Industry-Academia Collaboration -** Increasing collaboration between academia and industry leads to the development of industry-relevant curriculum, internships, and research projects, enhancing the employability of graduates and attracting more students to pursue higher education

Domestic higher education market in India is estimated to cross ~Rs. 7.0 trillion by fiscal 2029



Note: E: Estimated, P: Projected; Source: National Statistical Office (75th survey), AISHE, AICTE, CRISIL MI&A

Higher education enrolments saw muted growth on account of the pandemic; estimated to see higher growth in future

India, with an estimated 41.1 million enrolments in higher education (as per AISHE and AICTE) as of fiscal 2024, has seen modest growth in higher education enrolment partly on account of the pandemic, due to which the market saw lower-than-expected growth during the fiscals 2021 and 2022.

The number of students enrolled in traditional bachelor's and master's degrees (arts, science and commerce) is estimated to have increased at ~4% CAGR from fiscal 2018 to fiscal 2024 and a 3-year CAGR of ~5% between fiscals 2021 and 2024, accounting for 58% of the share of overall enrolments in fiscal 2024. Lower fees and easier admission (absence of competitive tests), as compared to the technical courses (medicine, engineering, law etc.) have majorly driven growth in these educational streams. Among the courses, engineering and medical graduates account for a large portion of the employable population. Enrolment in the medical science discipline grew the highest with an estimated CAGR ~12% between fiscal 2018 to 2024 (and a 3-year of 12% between fiscal 2021 and 2024) due to increased demand brought on by the pandemic and the course's financial viability.

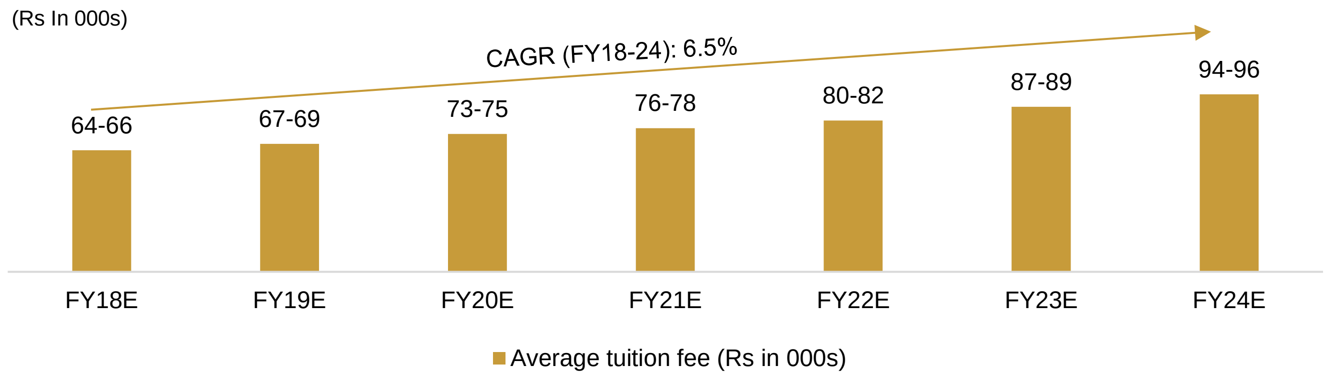
Indian Higher Education market holds immense untapped potential

Although globally, India has among the highest number of higher education institutes (between 55,000 and 60,000 in fiscal 2022), the GERs in higher education are significantly low, with fiscal 2022 recording 28.4%. K–12 enrolment data, where the GER of secondary and senior secondary schools stand at 80% and 58% respectively, indicate that dropout rates are higher after completing secondary education, consequently bringing down the potential pool of candidates for higher education enrolment as well. The country's education system suffers from inadequate education infrastructure, a shortage of skilled and quality faculty, unfilled faculty positions and outdated curricula. However, these factors present a lucrative opportunity for significant expansion in this sector, providing stakeholders with the chance to capitalize on in the future. This may include fostering competition to establish higher education institutions, implementing crucial government initiatives, facilitating private sector involvement through investments, and providing education loans and infrastructure financing. CRISIL believes that bridging this significant demand-supply gap in higher education due to the growing young population and limited capacity in public & private institutions is pertinent. Going forward, CRISIL expects higher education enrolments to see a higher growth as compared to the past, by clocking a CAGR of ~5-7% between fiscal 2024 and fiscal 2029 to reach ~52.1 million at the end of fiscal 2029.

Average tuition fee incurred in domestic higher education market expected to reach Rs 136,000-138,000 by fiscal 2029

The average annual tuition fee incurred per student for pursuing a higher education course in India is estimated at ~Rs 95,000 as of fiscal year 2023-24, having seen a CAGR between fiscal 2018 and fiscal 2024 to the extent of 6.5%, (surpassing average growth in CPI historically during the same period) and a 3-year CAGR of ~7.3% between fiscals 2021 and 2024. Going forward, the average tuition fee for domestic higher education in India is expected to see a steady increase of 7-8% CAGR from fiscal 2024 to fiscal 2029, reaching ~Rs 136,000-138,000 per student on an annual basis.

Average tuition fee incurred annually per student ranges between Rs 94,000 and Rs 96,000 as of fiscal 2024



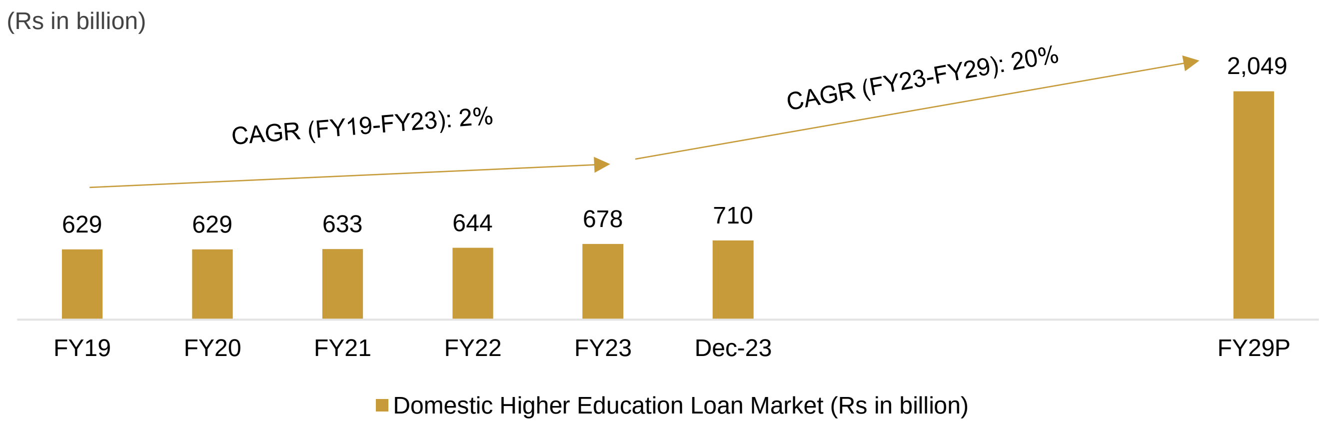
Note: E: Estimated; P: Projected; Figures include UG and Ph.D., M.Phil. & Post Graduate Level; Higher education tuition fees include weighted average tuition fees of Medical, Engineering, Management, Arts, Science and Commerce and others (Social Science, Law, Education, Agriculture, Home Science, Physical Education, Journalism and Mass Communication etc.); Source: National Statistical Office (75th survey), AISHE, College/University websites, Industry, CRISIL MI&A estimates

The average cost of attendance (including tuition fee, boarding fees of the university or college) is estimated to range at ~Rs 116,000-118,000 as of fiscal 2024 and is projected to reach ~Rs 168,000-170,000 by fiscal 2029 with the hike in hostel fees estimated to have remained range bound. Further, at a Pan India level, the tuition fee varies significantly between Public and Private Universities. The average annual tuition fee incurred per person at a private institution (aided or unaided) is estimated at Rs 130,000 – Rs 140,000, while it is estimated at Rs 75,000 – Rs 80,000 at a public institution for the fiscal year 2023-24.

Domestic Higher Education Loan Portfolio is expected to see higher growth

The domestic higher education financing market clocked a CAGR of ~2% between fiscal 2019 and fiscal 2023 (3-year CAGR of ~3% between fiscals 2020 and 2023) to reach Rs. 678 billion at the end of fiscal 2023. There was an increase in demand post the pandemic with outstanding loans in this portfolio seeing a 5% increase on-year reaching Rs 678 billion in fiscal 2023 from Rs 644 billion in fiscal 2022. Going forward, the higher education loan portfolio is expected to cross Rs. 2 trillion during fiscal 2029, growing at a CAGR of ~20% between fiscal 2023 and fiscal 2029. Driven by factors including – the significant increase in tuition fee, which has historically been trending over and above the rate of consumer price inflation, increasing student enrolments due to rising demand for pursuing higher education, increasing number of education-focused financiers entering this space along with the flexibility offered by such financiers in terms of moratorium/repayment schedule as well as their willingness to offer financing for off-beat courses are expected to drive growth in the domestic higher education loan portfolio.

Domestic higher education loan portfolio to see higher growth from Fiscal 2023 to Fiscal 2029



Note: P: Projected; Loans with a ticket size of less than Rs 1.5 million and 5% of loans with a ticket size of above Rs 1.5 million have been categorized as domestic higher education loans; Source: CRIFHighMark, CRISIL MI&A

Financiers to leverage the underpenetrated domestic higher education loan market

The domestic higher education loan market has low finance penetration estimated at ~18% as of fiscal 2024. This is primarily due to the limited number of players in the market offering specialized models for education loans, especially within the NBFC market. Additionally, a large portion of the population, including those from low-income and middle-income groups, are not adequately served by existing loan providers. This situation presents significant potential for lenders in the industry to capitalize on the existing market gap. Going forward, CRISIL MI&A expects the finance penetration rates to see a steady increase reaching 21-23% by fiscal 2029. Factors enabling this growth are attributed to the increasing demand for higher education, rate hikes in tuition fees and increasing presence of education-focused lenders to capitalise on the underpenetrated market.

Availing loans to fund domestic higher education needs is expected to gain traction primarily owing to fee hikes

On funding their higher education, students with the financial capacity could opt to self-fund their education by fully or partially liquidating investments, borrowing from friends or relatives, or availing scholarships from institutions etc. The other option pertains to availing financing from institutions through education loans. Additionally, several banks and financial institutions also extend other forms of credit such as personal loans, loans against gold, loans against property, etc. to support students seeking education loans expanding the financing opportunities for lenders. Further, with the ticket sizes for education loans of up to Rs 1.0-1.5 million (max up to Rs. 2.0 million) falling under the ambit of priority sector lending, banks play a large part in providing financing for domestic education.

CRISIL estimates that ~0.6-0.8% of the total students enrolled in domestic higher education have availed financing as of fiscal 2024 – which indicates that this is a severely underpenetrated market. Propelled by several factors including - the significant increase in fee hikes (education inflation historically trending over and above the rate of consumer price inflation) seen across courses over the years, flexibility offered by financiers in terms of moratorium/repayment schedule and willingness to finance towards off-beat courses etc., it is estimated that the share of availing financing for higher education loans would gain more traction in the coming years with more students opting to avail formal financing from lenders to pursue their higher education thereby reducing the share of self-funding higher education which would decline going forward.

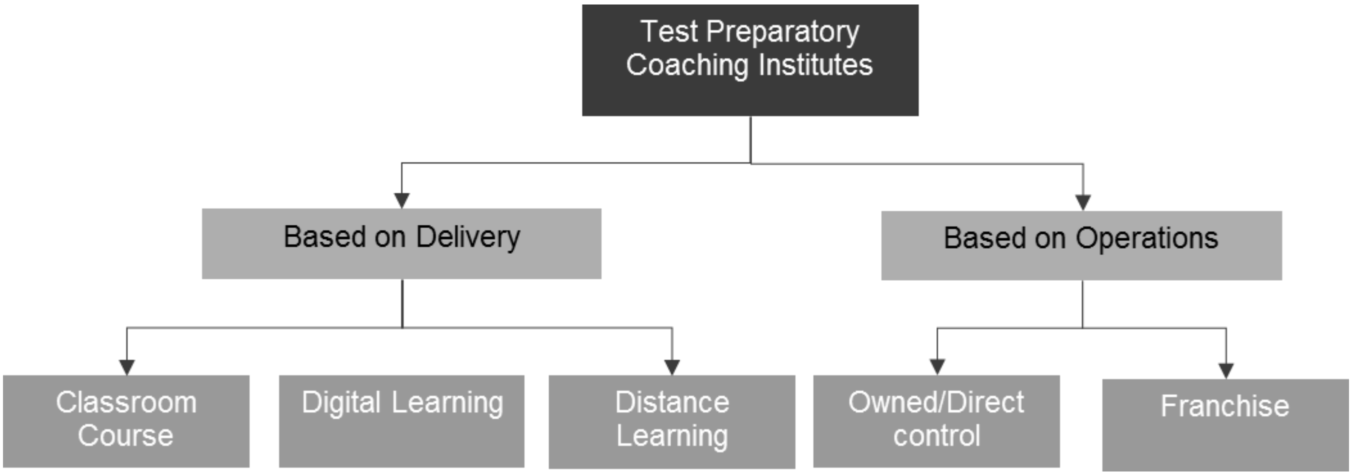
Overview of Test Preparation Market in India

Test Preparation market expected to grow at 13% CAGR between Fiscals 2024 and 2028

The test preparation market in India is highly competitive and diverse, catering to various exams such as engineering (e.g., Joint Entrance Examination or 'JEE' such as JEE Main and JEE Advanced), medical ((National Eligibility cum Entrance Test or 'NEET'), management (Common Admission Test or 'CAT'), civil services (Union Public Service Commission or 'UPSC'), banking, and more. It includes offline coaching institutes, online platforms, self-study materials, and mobile apps. The industry has seen evolution from introducing various traditional methods such as practice papers, crash courses, class curricula, and mock tests to advance solutions like online tutoring, video-based lectures, exam/test analytics, etc. The industry is expected to stay robust in terms of growth and consequently investments, fuelled by the increasing number of students aspiring for competitive exams, rising internet penetration, and the growing demand for quality education.

The rising awareness about potential employability of certain programs or streams of education has been increasing the competition as well. Along with this, the efforts at various levels of government bodies to increase enrolment at least tertiary level of education i.e., bachelor's degree seen have seen positive results year on year in terms of interest in higher education. The combined effect of these forces has led to a continuous growth of the test preparation market for years, except for Covid-19 affected years. CRISIL MI&A estimates the overall test preparatory market in India to have reached Rs. 550-600 Bn in fiscal 2023 and Rs.600-650 in fiscal 2024. CRISIL expects the market to grow at ~13% CAGR between fiscals 2024 and 2028.

Business model for test preparatory coaching institutes



Based on the type of delivery, coaching institutes have three main models, with the traditional classroom as primary model, and other modes like digital learning and distance learning gaining popularity, helping players widen their reach.

Classroom course most popular model for players

The traditional classroom model is the most preferred mode of training as it allows personalised attention, easy doubt clearance and constant monitoring of performance.

E-learning fast gaining traction among students

The E-learning market has been among the fastest-growing markets in the last few years. Rising internet penetration with proliferation of 5G, ubiquitous availability of content, and growing awareness amongst a technology savvy generation has aided growth. Players have introduced digital products including recorded content on personal computers (PCs), laptops, tablets and mobile phones. Apart from recorded content, some institutes have also introduced live/online classroom course, which enables the student to have live interactive sessions while accessing live content on their devices remotely.

Distance learning programme (DLP) accounts for minor share in the industry

In this category, the institute provides study material to facilitate the process of self-study for the candidate. Institutes also provide test series services for the candidates enrolled in the programme. DLP is not a primary business division for any player in the industry.

Test preparatory institutes can also be segregated based on their type of operations such as –

- **Owned/ Direct Control:** Under this model, the institute has complete control over operations in the premises. The premises are either owned or leased by the institutes. This model helps to maintain complete control over quality and regularly monitor the performance of faculty members as well.
- **Franchise:** Many players opt for franchising, allowing expansion without heavy investment. The institute provides permission to a party to use its brand name, setting quality standards. In return, the franchisee

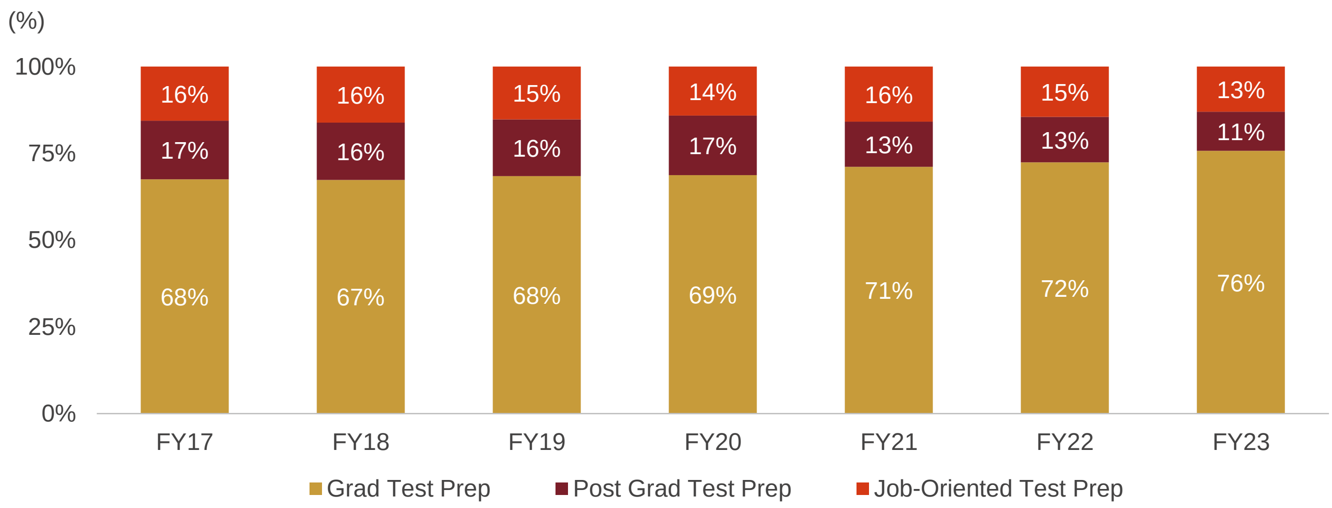
typically pays a revenue share to the franchisor (in this case, the test preparatory service provider). Larger players use a mix of direct owned and franchise mode.

Distribution of Indian Test Preparation Market

Undergraduate test has highest share in overall test preparatory market in India

The test preparation market in India is led by graduate test preparation with over 75% share of market, followed by Job-oriented and post-graduate test preparation. This is primarily because of the large number of students and competition in the industry for entry into prestigious undergraduate programs such as Engineering, Medical, Law and others university specific entrance tests. Though all three divisions in test-preparation market have seen growth, the trend in share of market among them has different story. Graduate test preparation market has seen continued to occupy larger share of the pie, whilst the job-oriented test preparation has seen declining share. The reasons for decline are increased awareness about the high probability of failure as well as time commitment problems with such exams, especially the Civil Services Exams. Though there is interest for such exams, the growth is less than other two divisions. With the rise of online test preparation, students and working professionals from tier-1 and tier-2 cities are increasingly opting for such schemes as it provides flexibility in time and location.

Product-wise trend in test preparation market in India



Source: UDISE, AISHE, CRISIL MI&A

At an overall level, the test preparation trends vary across different streams based on factors such as the level of competition, the importance of standardized tests, and the career opportunities associated with each field as mentioned below:

- **Engineering Entrance Exams:** Includes significant reliance on coaching institutes and a rising trend towards online preparation, especially in smaller cities and towns, due to the complexity of the syllabus and the high stakes involved.

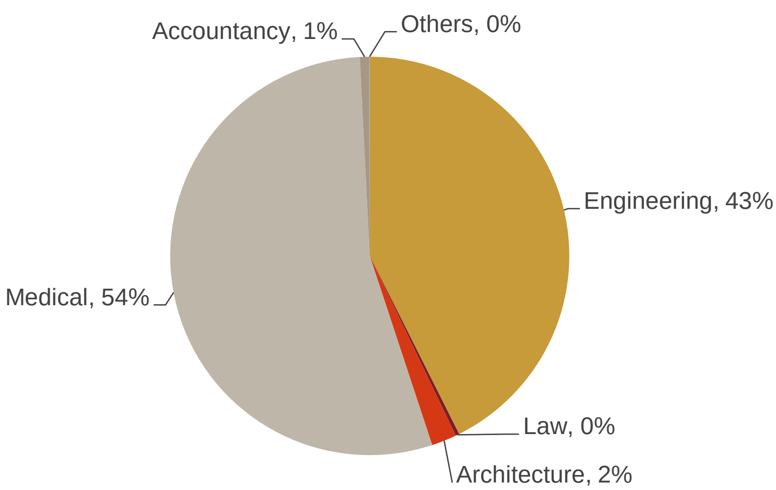
- **Medical Entrance Exams:** While coaching institutes are crucial for students aiming for top medical colleges, online platforms offering comprehensive study materials, mock tests are gaining popularity among NEET aspirants.

- **Management Entrance Exams:** Management entrance exams see a mix of coaching institute reliance and self-study approaches. While coaching institutes provide structured guidance and mock tests, there's also a growing trend towards self-preparation using online resources owing to flexibility

- **Civil Services Exams:** Preparation for civil services exams is characterized by a combination of self-study, coaching, and current affairs analysis. Coaching institutes offering specialized courses for UPSC preparation are prevalent, especially in Delhi and other major cities. However, there's an increasing trend towards online platforms for UPSC aspirants, catering to candidates from diverse backgrounds.

- **Banking and Government Exams:** Banking and government exams witness a high demand for coaching institutes, particularly in semi-urban and rural areas, where access to quality education is limited. These exams often have many applicants, leading to intense competition. Online platforms offering affordable and comprehensive study materials are gaining traction among aspirants for such exams.

Share of different streams in test preparation by stream of education (FY24E)



Source: UDISE, AISHE, CRISIL MI&A

Growth drivers

Intense competition for entry into premier institutes to drive coaching demand

There is a significant dearth of seats in premier institutes in the country, leading to stiff competition in entrance exams such as JEE and NEET. Moreover, difference in parameters such as quality of faculty, students, research facilities, placement prospects between premier institutes and other low-tier colleges is substantial, making it vital for students to strive for a seat in top institutes only. This creates a market for test preparatory coaching institutes that help students enhance their performance in the entrance tests. Going forward as well, competition will continue to remain stiff with limited number of new institutes/seats.

Increase in internet penetration will pave way for growth through digital means

The performance of students in urban areas is significantly better than students from other locations (refer to Engineering Test Preparatory Coaching Industry chapter for more details). This is primarily on account of students getting additional help through coaching institutes while preparing for entrance exams. However, with the rise in internet penetration beyond major cities coupled with players also stepping up their efforts in the sector, revenue from the digital front will likely aid substantial growth for players. Along with recorded lectures, the concept of virtual classrooms may also gain traction in tier-2 and tier-3 cities, thereby opening up new geographies for the players.

Increase in intake of premier institutes (both domestic and overseas education)

Government's focus on increasing GERs in the higher education category and more importantly emphasis on increasing the number of good quality institutes will increase intake. Despite increase in expected intake of quality institutes, demand will continue to outpace supply. This is expected to lead to higher demand for test preparatory market. Further, contemporary teaching methodologies used by organised players, shift in preference towards organised players, will also drive the growth for the test preparatory educational institutes.

Innovation and Emerging trends witnessed in the test preparation market

Over the years, several key initiatives and innovations have emerged in the test preparation market to cater to the evolving needs of students and leverage technological advancements, thereby making education more accessible, engaging, and effective for students across India. Some of these initiatives are as follows:

- **Online Platforms and Mobile Apps:** The rise of online platforms and mobile apps has revolutionized test preparation by offering anytime, anywhere access to study materials, video lectures, interactive quizzes, and mock tests.
- **Adaptive Learning Technologies:** Adaptive learning technologies use algorithms to personalize the learning experience for each student based on their strengths, weaknesses, and learning pace. These technologies adjust the difficulty level of questions and content to ensure optimal learning outcomes. Adaptive learning platforms like Toppr and Vedantu are gaining popularity for their effectiveness in improving student performance.
- **Gamification:** Gamification techniques, such as rewards, badges, leaderboards, and interactive challenges, are being integrated into test preparation platforms to enhance student engagement and motivation. Gamified learning platforms like Quizizz and Kahoot! make studying more enjoyable and effective for students.
- **Artificial Intelligence (AI) and Machine Learning (ML):** AI and ML algorithms are being used to analyse student performance data, predict learning patterns, and provide personalized recommendations for

improvement. Companies like Embibe leverage AI to offer personalized study plans, exam analysis, and feedback to students, helping them identify areas of improvement and optimize their study strategies.

- **Virtual Reality (VR) and Augmented Reality (AR):** VR and AR technologies are being explored in the test preparation market to create immersive learning experiences, allow students to visualize complex concepts, conduct virtual experiments, engage in interactive simulations, and enhance understanding and retention of the subject matter.

Overview of E-Learning Market

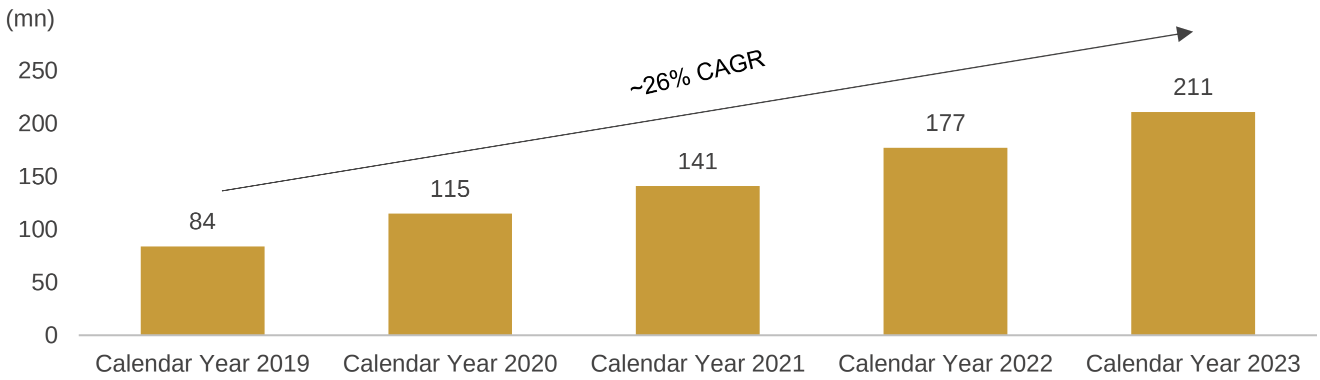
E-Learning category ushers in a new phase in Indian Education industry

The digital education or E-Learning market in India can be divided into formal and informal space. The formal space largely constitutes Private & Government schools, Universities and Large Corporations which use e-learning methods for skill enhancement. Several players in the formal space have also set up e-library platforms for access to e-books accessing material. While the market in India is still nascent, the informal e-learning space has seen a substantial pick-up over the last 6-7 years due to widespread availability of wireless data services, increased online content, and tech-savvy student population. Further, the sector provides opportunity for existing players to increase geographic footprint without substantial investment in assets.

E-Learning market witnessed surge during Covid-19; trend continues post Covid

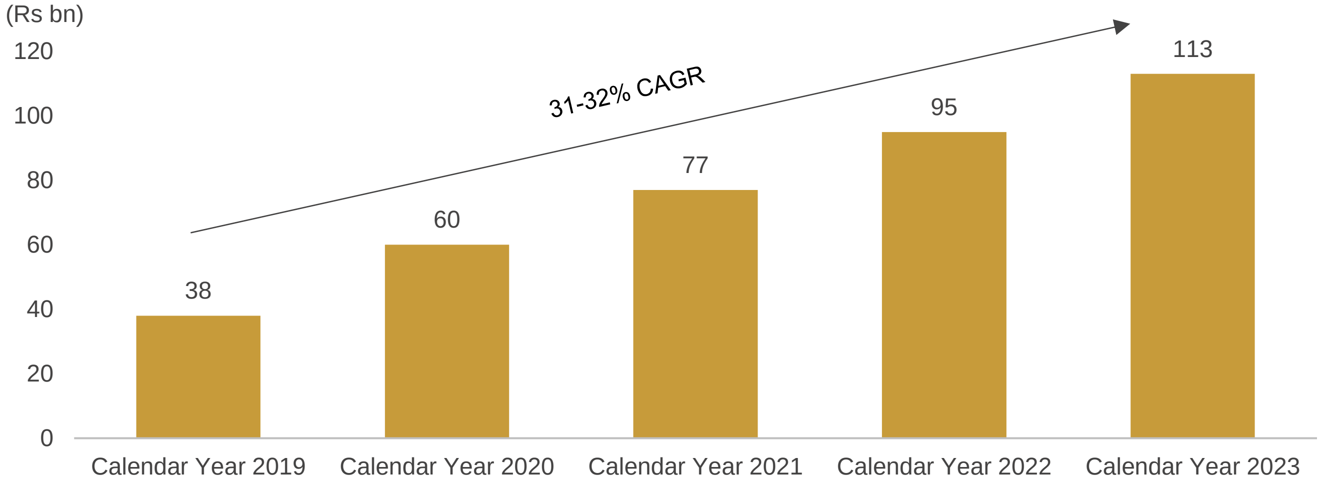
In response to the shift to remote work & schooling prompted by the COVID-19 pandemic in 2020, individuals increasingly turned to digital learning to acquire the skills necessary to navigate today's ever-evolving work landscape. This caused a surge in new users' registration, taking the total learners in platforms Udemy and Coursera to cumulative reach 115 million in 2020 from 84 million in 2019 and 65 million in 2018. At end of 2023, the cumulative learners in these platforms reached 211 million, with Coursera and Udemy having 142 million & 69 million learners respectively. These increases reflect the growing global acceptance of online education, including rises in remote learners pursuing higher education and those from marginalized or distant communities.

More learners are accessing courses online across platforms; trend likely to continue



Note: Data is on a calendar year basis; The above chart includes data for Udemy and Coursera; Source: Company reports, US SEC filings, CRISIL MI&A

Revenue for e-learning platforms grew at a fast pace over the past 5 years



Note: Data is on a calendar year basis The above chart includes data for Udemy and Coursera; Source: Company reports, US SEC filings, CRISIL MI&A

USA and India are among key markets for E-Learning platforms

At a country level, the top five countries represented by Coursera's registered student base at end of 2022 were the US (22.1 million), India (19.0 million), Mexico (5.7 million), Brazil (4.8 million), and China (3.7 million). For Udemy, the top three countries were the US, India and Brazil. E-Learning platforms have a significantly large user base in the US due to factors such as high internet penetration, a culture of lifelong learning, and the presence of leading universities and companies partnering with these platforms. Further, factors such as a large youth population, increasing internet penetration, rising demand for skills enhancement, and the need for affordable education options have contributed to the popularity of these platforms in India. Other countries such as China, Brazil, the UK and Germany also contribute significantly to the user base of these platforms.

Types of customers in the e-learning market

The e-learning market caters to a diverse set of customers, with each set having its own specific preferences, influencing the design, delivery and content of e-learning solutions. Therefore, some of the typical customer groups include the following:

- **Students:** These set of customers include individuals seeking to improve their knowledge, skills or qualifications outside traditional institutes. This typically includes professionals from IT, healthcare, finance and other fields that widely use e-learning tools as a mode to upskilling themselves - to stay relevant and prepare for future job opportunities within an organization.

- **Enterprise users:** They include companies who invest in training and development of their employees and often the e-learning modules are customised for each enterprise. To the enterprise, such solution offers flexible, scalable and cost-effective way for upskilling the employees

- **College and universities:** The higher education institutions have started to incorporate online courses to supplement traditional learning to reach a wider set of audience
- **Government agencies:** Various government agencies also use e-learning platforms for training civil servants, dissemination of information and educating the public on various issues

Growth drivers for the E-Learning Market

Globally, the E-Learning market has experienced significant growth in recent years, owing to the combination of greater global access to technology and open learning platform, which has unlocked the opportunity for more citizens to enhance their skills and advance their careers. Going forward, CRISIL believes that the trend will continue owing to the underpenetrated, large addressable market in this space to enable the digital transformation of education and provide lifelong adult learning at scale.

Below are some of the key factors that is likely to aid to the growth of the e-learning market:

- **Technological Advancements:** Continuous advancements in technology will improve the accessibility and effectiveness of e-learning platforms and content delivery systems.
- **Increased Internet Penetration:** The growing accessibility of high-speed internet connections worldwide has made it easier for individuals to access online learning material from anywhere at any time, thereby expanding the potential market for e-learning globally.
- **Demand for Skill Development:** In today's rapidly changing job market, there is a growing demand for individuals to continuously upgrade and acquire new skills. E-learning offers a flexible and convenient way for people to access educational resources and training programs tailored to their specific needs.
- **Cost-effectiveness:** E-learning often proves to be more cost-effective compared to traditional forms of education and training. It eliminates the need for physical classrooms, travel expenses, and printed materials, making it a preferred option for both individuals and organisations looking to minimise costs.
- **Corporate Training and Development:** Many companies are turning to e-learning solutions to provide training and development opportunities for their employees. E-learning allows organisations to deliver consistent training across geographically dispersed teams, track employees' progress, and adapt training content to evolving business needs.
- **Personalised Learning Experience**: E-learning platforms leverage technologies like machine learning and data analytics to provide personalized learning experiences tailored to individual learners' needs and learning styles. This personalised approach enhances engagement and knowledge retention.
- **Lifelong Learning Trends:** The concept of lifelong learning has gained traction as individuals recognize the importance of continuous skill development to remain competitive in the workforce. For such lifelong learners, E-learning platforms offering a wide range of courses and resources are attractive options.

- **Government Initiatives**: Cabinet Committee on Economic Affairs has approved continuation of *Samagra Shiksha Scheme*, which was aimed at universalisation of education and enhanced learning outcomes for a period of five years i.e., from 2021-22 to 2025-26. The total financial outlay is estimated to be ~Rs 2.9 trillion.

Overview of skills market and country-wise skill demand

The skills market typically refers to the demand and supply dynamics of skills required by employers and sought by individuals seeking employment or career advancement. Overall, the skills market is dynamic and continually evolving in response to changes in technology, business practices, and societal needs. Hence, Individuals who invests in continual learning and upskilling for staying relevant and adaptable in the rapidly changing skills landscape are more likely to succeed in today's competitive job market. Some of the skills that are currently in demand includes:

- **Information Technology Skills:** Individuals with proficiency in data analysis, coding, web development, cybersecurity, and proficiency are in demand due to rapid digitisation of industries.

- **Soft Skills:** Soft skills, including communication, teamwork, adaptability, problem-solving, creativity, emotional intelligence, and leadership are gaining importance for building effective teams and fostering workplace collaboration.

- **Data Analysis and Data Science Skills:** Growing demand for professionals with skills in data analysis, data visualisation, statistical analysis, machine learning, and artificial intelligence. These skills are particularly sought after in industries such as finance, healthcare, marketing, and technology.

- **Project Management:** Employers look for individuals with expertise in project planning, budgeting, resource allocation, risk management, and stakeholder communication.

- **Industry-Specific Skills:** Sector-specific skills are highly valued such as demand for professionals with clinical expertise, medical coding, and healthcare informatics skills (healthcare), skills related to financial analysis, risk management (finance).

- **Language Proficiency and Intercultural Competence:** In a globalised economy, language proficiency in English, Mandarin, Spanish, and Arabic can provide individuals with a competitive edge in the job market

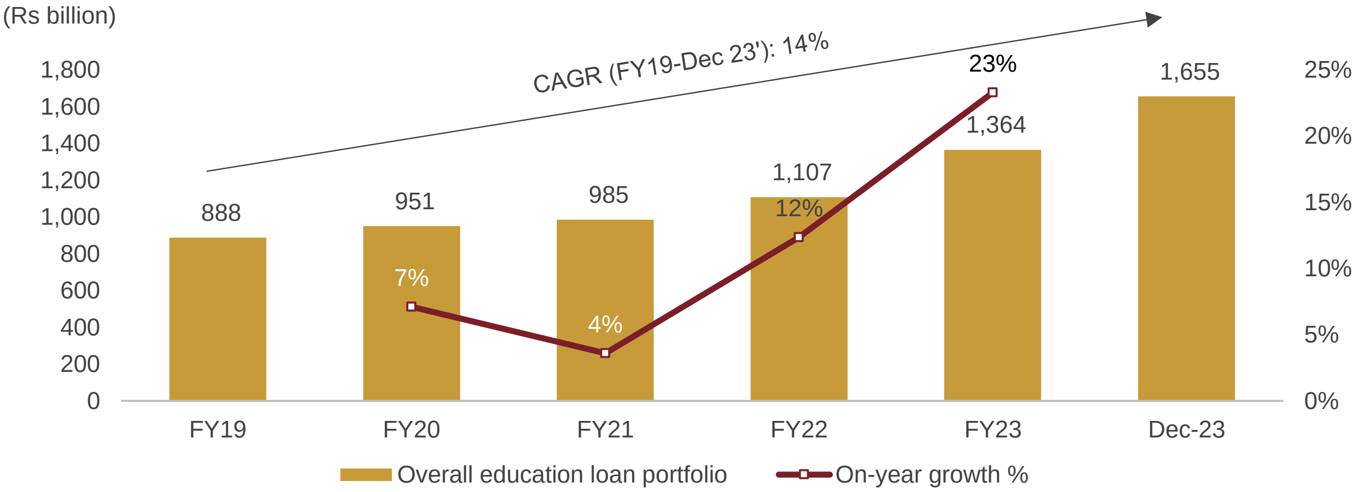
- **Critical Thinking and Creativity:** Employers seek individuals who can think critically, analyse information, and come up with innovative solutions to complex problems. Creative thinking skills, including the ability to generate new ideas, think outside the box, and apply creativity to various tasks, are highly valued in roles that involve innovation, design, and strategic planning.

Overview of the Overall Education Loans Market in India

Growth in overall education loans accelerated with increased demand for higher education and overseas education

Higher education has been gaining importance in India over the years with a visible increase in students opting for courses - both at home and overseas - and with it, an explosion in demand for student loans. This offers a huge opportunity to the domestic education loan industry, as recent trends bear out. The education loan market in India witnessed tepid growth at 7% and 4% on-year in fiscal 2020 and 2021, respectively, because of the Covid-19-induced lockdowns worldwide. The easing of restrictions in the second half of fiscal 2022 led to double-digit credit growth of 12% on a lower base. In fiscal 2023, the outstanding loan portfolio grew at a robust 23%, driven by a significant jump in NBFC credit, coupled with meaningful growth in banks. Growth momentum continued in fiscal 2024 as the overall educational loan portfolio reached Rs 1,655 billion as of 31st December 2023 from Rs 1,364 billion as of 31st March 2023. Expansion in education loans in fiscals 2023 and 2024 can be attributed to factors, such as opening of overseas borders for on-campus education, increase in applications for higher education, strong demand from tier 1 and 2 cities and pent-up post-pandemic demand. With a steep rise in spending on education and more students opting for overseas education, the education loan market has expanded. Healthy momentum is expected to continue in the coming fiscals as well.

Overall education loan portfolio witnessed robust growth between fiscals 2022 and 2024

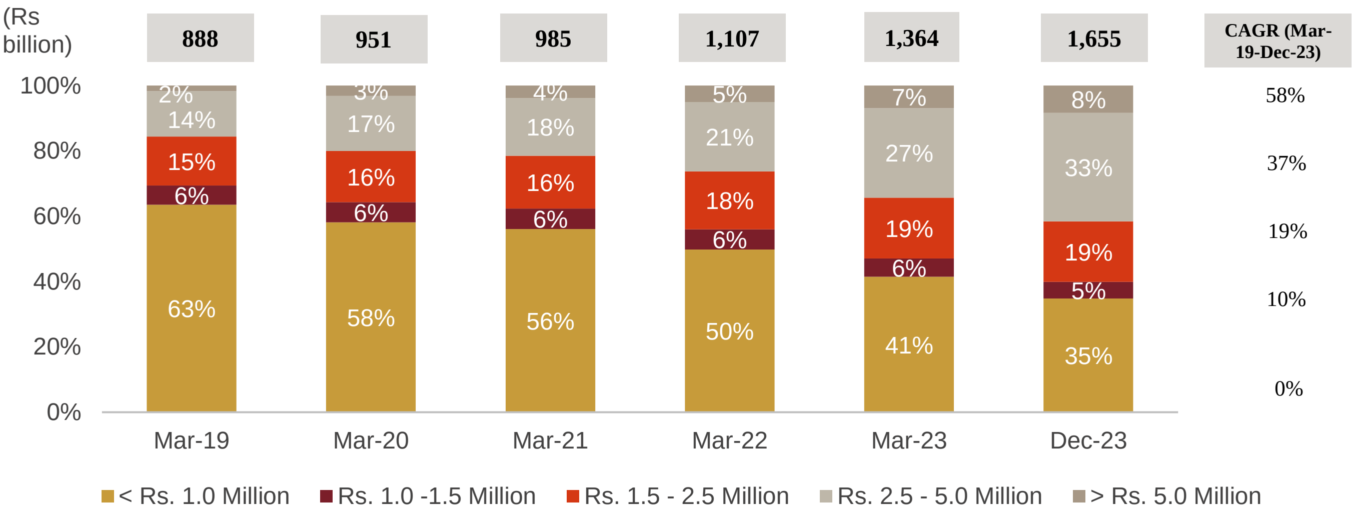


Note: A large number of students take Personal Loan/LAP from lenders to fund their education. However, this is not reported under education loan category in the credit bureau; Source: CRIFHighMark, CRISIL MI&A

Growth led by education loan of ticket size greater than Rs 1.5 million

The education loan market of India is being driven by a surge in loans with ticket size greater than Rs 1.5 million – 95% of this comprises overseas education loans dominated by NBFCs. Growth in loans of ticket size less than Rs 1.5 million has been moderate and is largely driven by banks as they concentrate more on domestic education loans, more so on RBI-mandated collateral free education loans of ticket size up to Rs 0.4 million. However, rising demand of NBFC-led education loans for admission in foreign universities, opening of overseas borders for on-campus education, and rise in overall cost of studying abroad, led education loan of ticket size greater than Rs 1.5 million to acquire the majority share of the overall education loans market of India as of 31st December 2023.

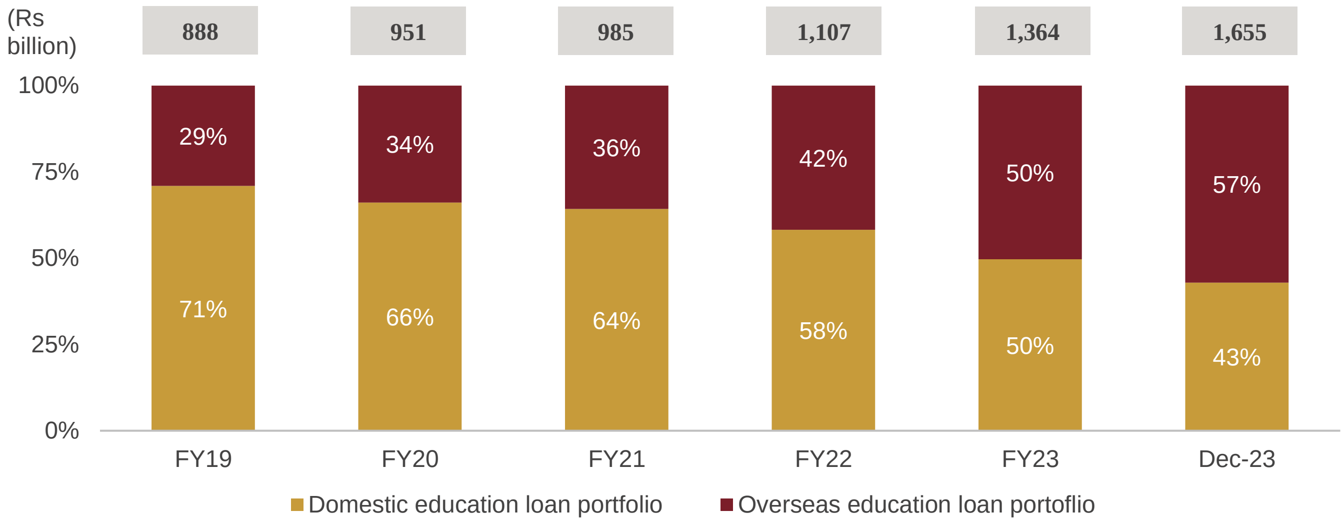
Share of education loans greater than Rs. 1.5 million within the overall education loan portfolio



Note: Figures in boxes represent overall education loan portfolio in rupee billion; Source: CRIFHighMark, CRISIL MI&A

CRISIL MI&A has classified 95% of education loans of ticket size above Rs 1.5 million as overseas-education loans considering the average tuition fees of foreign universities to be more than Rs 1.5 million. The chart below shows the rising share & importance of overseas education loans within the overall education loan portfolio, with its share expected to continue to expand, reflecting rising number of students preferring higher education abroad for better growth, exposure and earning capability. As of 31st December 2023, its share in overall education loans had increased to 57% from 29% in fiscal 2019.

Share of overseas education loans in overall education loan portfolio rose to 57% as of 31st December 2023

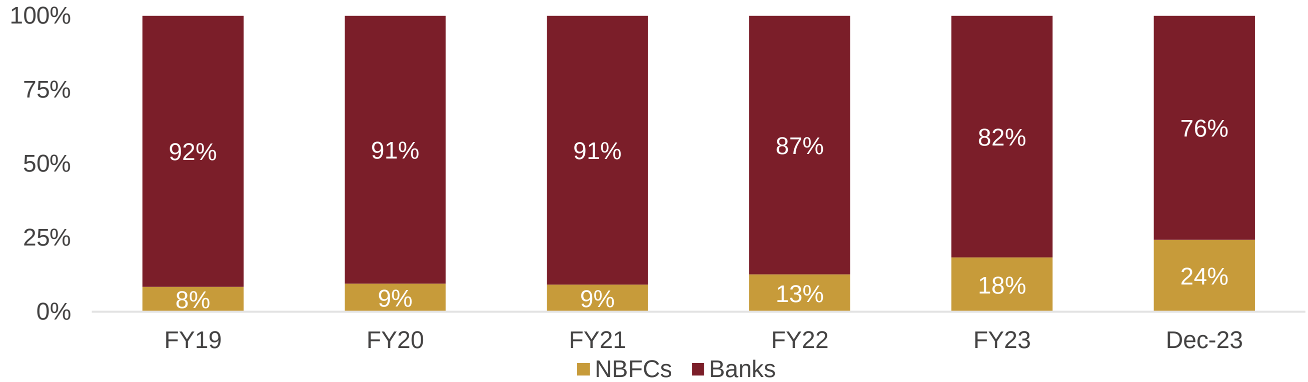


Note: The table in box represents the Overall Education Loan Portfolio; Source: CRIFHighMark, CRISIL MI&A

Share of NBFCs in overall educational loans in India on the rise

In India, banks account for 76% of the total outstanding education loan portfolio as of 31st December 2023, while non-banking financial companies (NBFCs) make up the remaining 24%. The State Bank of India (SBI) is the market leader among banks, while NBFC space is dominated by HDFC Credila and Avanse Financial.

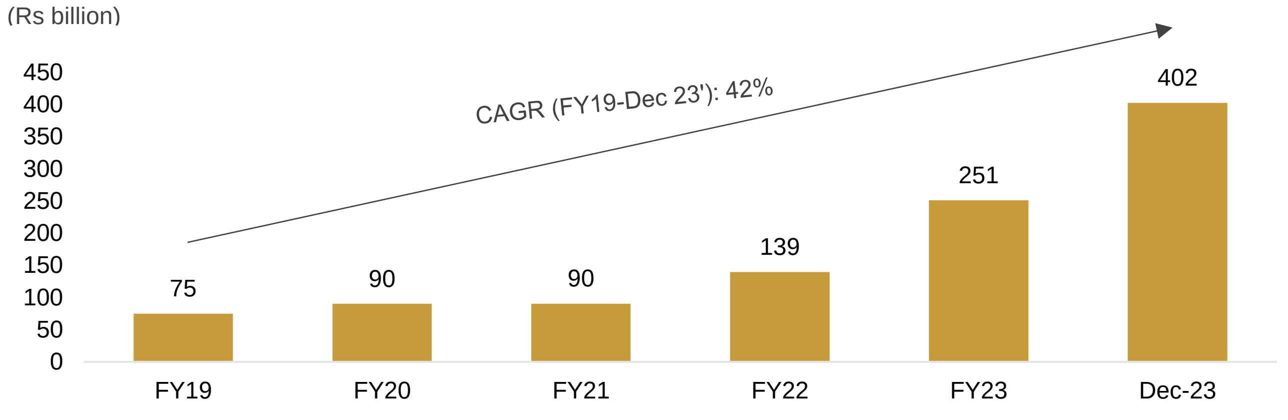
NBFCs' share in overall education loan market increased from 8% in fiscal 2019 to 24% as of 31st December 2023



Source: CRIFHighMark, CRISIL MI&A

For banks, education loans grew a healthy 15% in fiscal 2023, driven by a spurt in demand for big-ticket loans for overseas studies and willingness of banks to extend collateral loans. Before the pandemic, banks exercised caution due to asset-quality concerns, which constrained disbursements. For NBFCs, credit growth is driven by specialised business models, coupled with rising demand for education loans from students going to study overseas. Majority of the loans disbursed by NBFCs are for studying abroad, with India-based courses accounting for the rest.

NBFCs' educational loan portfolio logged 42% CAGR between fiscal 2019 and 31st December 2023



Source: CRIFHighMark, CRISIL MI&A

Product differentiation in Education Loans offered by banks and NBFCs

Feature	Banks	NBFCs
Courses covered	Specified courses covered at pre-approved list of colleges	Customized solution with greater course coverage including part-time, online and correspondence courses with no specified list/grading of colleges
Loan coverage	Tuition fees, travel expenses, examination fees, lab fees, etc, and capping on other related costs for course completion	100% loan coverage of all expenses, including tuition fees, travel and uniform/books/ equipment fees, and examination fees.
Underwriting model	Traditional collateral-based lending	Specialised underwriting model focused on evaluation of institutions, employability of students and earning co-borrower
Turnaround time (TAT)	Usually takes 15-20 days	Comparatively faster at 3 to 7 days
Processing fees	Low (up to 1% or minimum of Rs. 10,000 in loans above Rs. 20 L)	Moderate (1%-2% of loan amount)
Interest rates	Low (8.0%-12.5%)	Moderate (12.0%-15.0%)
Collateral	No security up to Rs 0.75 million; Tangible collateral for loans above Rs 0.75 million	Majority loans of NBFCs are unsecured; For secured loans, tangible security such as house; intangible security such as FD & life insurance are accepted
Average loan ticket size	Lower: Rs 0.5-0.6 million	Higher: Rs 2-3 million
Margin	Up to Rs 0.4 million: Nil; Above Rs 0.4 million: Domestic – 5%; Abroad – 15%	Higher loan coverage

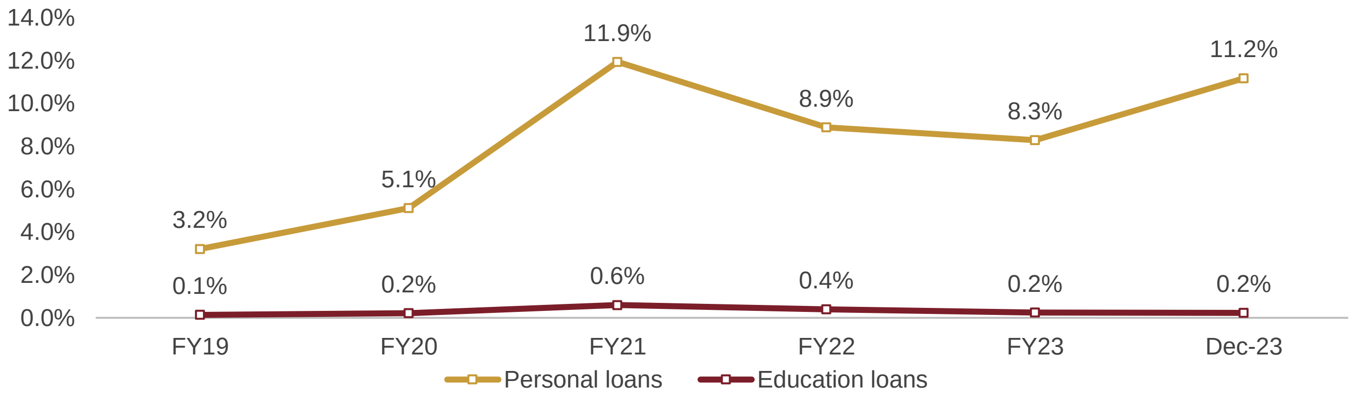
Feature	Banks	NBFCs
Repayment period	Maximum 15 years after course period + 12 months of repayment holiday	Maximum 10 to 15 years including course period and grace period
Repayment options	Fixed repayment options as typically no customizations are available.	Customisation available based on financial needs; Multiple repayment option such as interest/partial interest servicing during the course and EMI repayment during the course or after moratorium.
Sourcing channels	DSAs, Branch walk-ins, education institutions, digital channels (to increase ease of submitting documents etc.) and counsellors	Diversified mix including educational institutions, counsellors / consultants, education centres for test preparation, student visa consultants, DSAs, digital channels (to increase ease of submitting documents etc.) and other loan consultants

Source: Public disclosures, CRISIL MI&A

Specialised underwriting model of education loan NBFCs facilitates better asset quality than other loan products such as personal loans

With rising demand for education loans, education-loan portfolios of lenders have been on the rise with education-loan NBFCs establishing a strong foothold and gaining market share every fiscal. Moreover, education-loan NBFCs have been able to maintain a good asset quality, due to their specialised credit underwriting model, wherein risk underwriting of students is done based on the institutions that they are going to study in, along with future employability and income assessment. This is differentiated as compared to the traditional approach of underwriting in case of other loan products.

NPA% of personal loans and education loans for NBFCs



Source: CRIFHighMark, CRISIL MI&A

Credit underwriting of students is done to check the eligibility for approving education loan. For instance, for underwriting of education loans, a few parameters that are checked include minimum academic criteria, age, admission status, co-borrower and future employability and earning potential/average salary from the course opted.

The eligibility criteria even for co-borrowers have been put in place by lenders, such as co-borrower being an earning Indian citizen, parent or guardian of the student and having a bank account in India.

Moreover, NBFCs have limited reliance on branch network for education loan distribution. They have robust, well-defined and relationship driven sourcing channels for education loans which includes educational institutions from India and abroad, education consultants working with students, education centres helping students in entrance test preparation, student visa consultants, direct-service agents (DSAs) and other loan consultants. NBFCs provide faster and easy on-boarding process to its channel partners, including fast and competitive pay-outs, dedicated partners' desk, shorter TAT, and long-term sanction validity to protect students from delayed visa process.

With such a robust underwriting model, lenders are able to capture the repayment capabilities of students beforehand, thereby leading to a good asset quality.

Asset quality of education loan NBFCs improved post-Covid-19

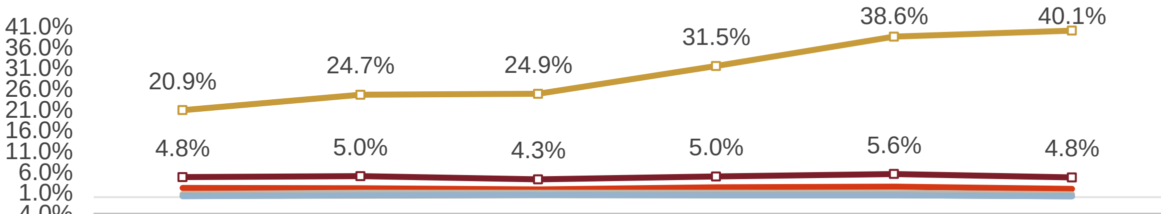
Loans from banks and NBFCs have played a significant role in promoting educational development of skilled individuals as required by emerging markets. Education loans are provided for graduation, post-graduation, diploma, and other professional courses in India as well as abroad. The education loan schemes offered vary based on the student borrower's characteristics, their risk profiles, and the college/institution they have opted for admission.

Education loan ticket size	Purpose	Security/collateral
Below Rs 0.4 million	Majorly comprise of students pursuing vocational training from institutes, such as ITIs and polytechnics	Bank schemes are based on Model Education Loan Scheme formed by the Indian Banks' Association (IBA); no collateral required
Rs 0.4 million to Rs 0.75 million	Students pursuing domestic higher education	Third-party guarantee required without any collateral
Above Rs 0.75 million	Students pursuing domestic higher education in premier institutes	Third-party guarantee and tangible collateral are required

Source: Public disclosures, CRISIL MI&A

Students opting for higher education abroad or in premier institutions in India are provided with different features of education-loan schemes. Students opting for education loans of ticket size less than Rs 0.4 million for vocational training or diploma typically come from low-income or lower middle-income families and have comparatively riskier profiles, due to incommensurate salaries after the completion of the course and declining demand in the job market. Due to financial instability after the completion of the course and higher cost of education, the ability to repay the loan is adversely affected, and hence, higher NPAs are seen in education loans with ticket size less than Rs 0.4 million. This has caused the GNPAs in overall education industry to stay elevated over years.

Ticket-wise education loans GNPA of the industry



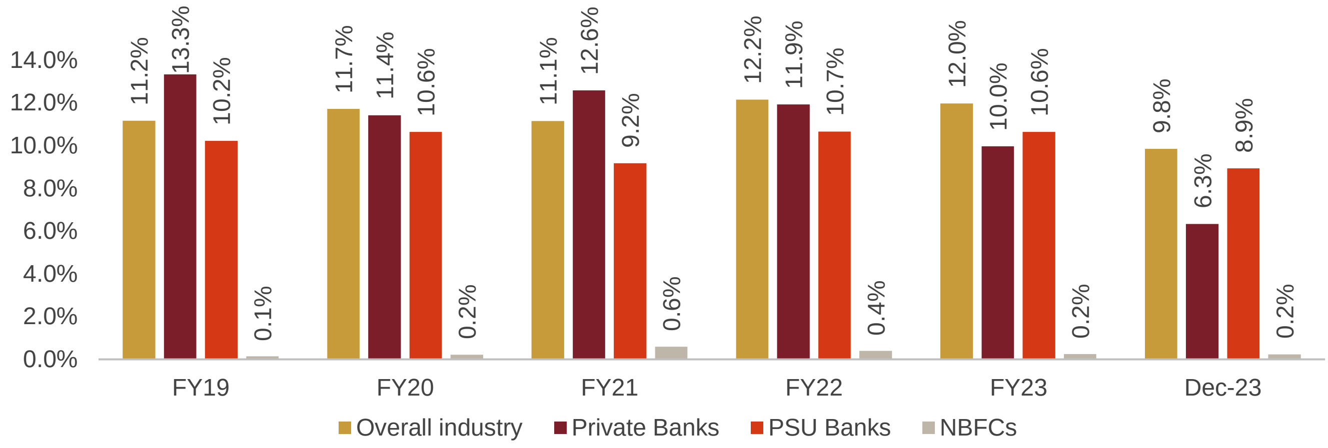
	FY19	FY20	FY21	FY22	FY23	Dec-23
< Rs. 0.4 Million	20.9%	24.7%	24.9%	31.5%	38.6%	40.1%
Rs. 0.4-1.0 Million	4.8%	5.0%	4.3%	5.0%	5.6%	4.8%
Rs. 1.0-1.5 Million	2.2%	2.1%	1.9%	2.4%	2.5%	2.0%
Rs. 1.5-2.5 Million	0.8%	1.0%	1.0%	1.0%	1.1%	0.7%
Rs. 2.5-5.0 Million	0.3%	0.3%	0.5%	0.4%	0.4%	0.2%
> Rs. 5.0 Million	0.2%	0.4%	0.5%	0.4%	0.4%	0.2%

Source: CRIFHighMark, CRISIL MI&A

Banks have witnessed higher GNPA than NBFCs in the education loan asset class. As education loans portfolio form a small proportion of banks' overall portfolio, their underwriting process is quite generic and collateral based. Within education loans, banks also focus more on lower ticket sizes as compared to NBFCs, more so on ticket sizes less than Rs 0.4 million without taking any collateral. Hence, absence of specialised underwriting approach, limited monitoring, and lower ticket size loans without collateral have led to higher GNPAs for banks. Despite lending higher ticket-size education loans, majority of which are unsecured, NBFCs have been able to maintain better asset quality than banks. Education loan focused NBFCs typically lend to students availing loans for higher education and overseas education, which are typically above Rs 1.0 million. Their specialised underwriting model enables them to provide a fixed obligation-to-income ratio (FOIR) that seeks to make repayments comfortable for borrowers even under certain amount of financial stress. Further, customisation offered by such NBFCs allow students to pay only the interest or partial interest during course duration, reducing additional financial burden.

During the pandemic, many companies had delayed or cut salaries. In certain cases, staff was laid off. With this and a downturn in the global economy, many freshly graduated students were finding it difficult to find jobs and start their loan-repayment process. This led to GNPAs increasing in fiscals 2021 and 2022, before moderating and the situation recovering in second half of fiscal 2022. Subsequently, GNPA moderated further in fiscal 2023, led by improving credit profile of borrowers and reviving job market. As of 31st December 2023, overall education loan GNPA for NBFCs stood at 0.24% and is projected to improve further next fiscal, due to the domain expertise of education loan NBFCs in identifying the industry trends and lending based on the specialised underwriting model, improving job market conditions and favourable long-term outlook of education industry (for studies in India and abroad). Despite global slowdown along with moderation in employment opportunities and high inflation, asset quality improvement is supported by high credit growth, controlled slippage and write-offs. Further, defaults in student loans impact the students' and parents' CIBIL scores. Given that this is the first loan that a student takes in his/her life, they are less likely to default, because of social factors and their circle of influence.

Overall education loans GNPA for NBFCs improved to 0.2% as of 31st December 2023



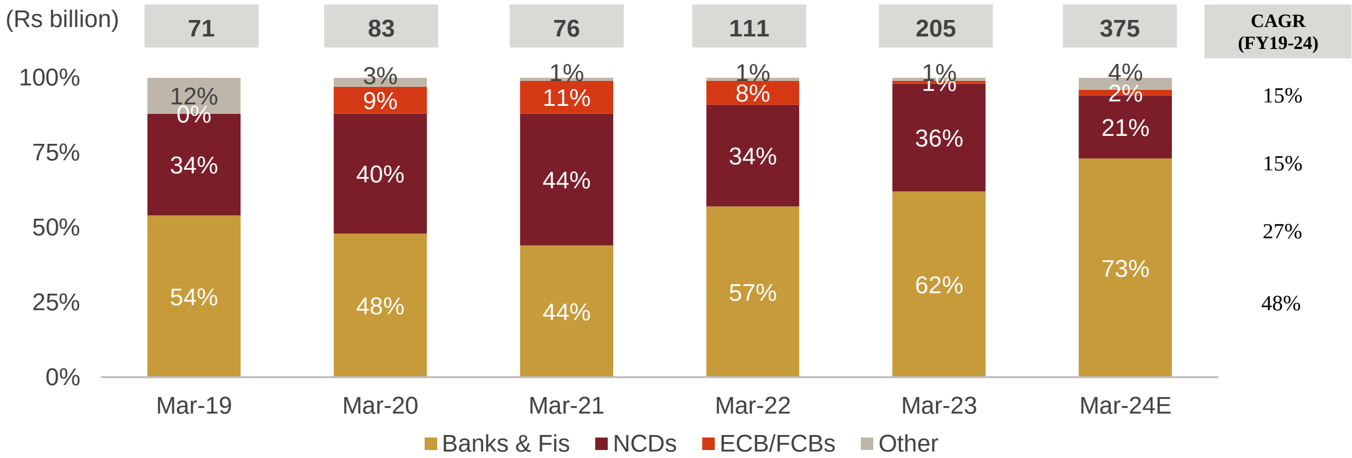
Source: CRIFHighMark, CRISIL MI&A

Education Loan NBFCs have managed to diversify away from bank borrowings as a source of funds, although they continue to remain an integral source

Key education loan NBFCs have a track record of strong financial flexibility and a diversified borrowing mix, and hence, are rated high. The share of non-convertible debentures (NCDs) in the borrowing mix of NBFCs increased from 34% in fiscal 2019 to 44% in fiscal 2021, on account of access to the capital market during a low interest rate environment. During the period, the share of bank borrowings declined from 54% to 44%. Thereafter, the trend reversed, with bank borrowings rising to 57% in fiscal 2022 and 62% in fiscal 2023 and the share of NCDs declining to 34% and 36%, respectively.

The RBI's move to increase risk weights for loans provided by banks to NBFCs specifically excludes education finance NBFCs. Hence, the move does not impact the cost of funds for such NBFCs. Moreover, NBFCs are actively collaborating with banks for fund raising via co-lending channels while conforming to the co-lending guidelines issued by the RBI. Hence, bank borrowings will continue to rise, despite an increase in cost of funds but still cheaper than borrowing from capital markets.

Although diversified, fresh borrowings from banks continue to dominate the borrowing mix for education loan NBFCs

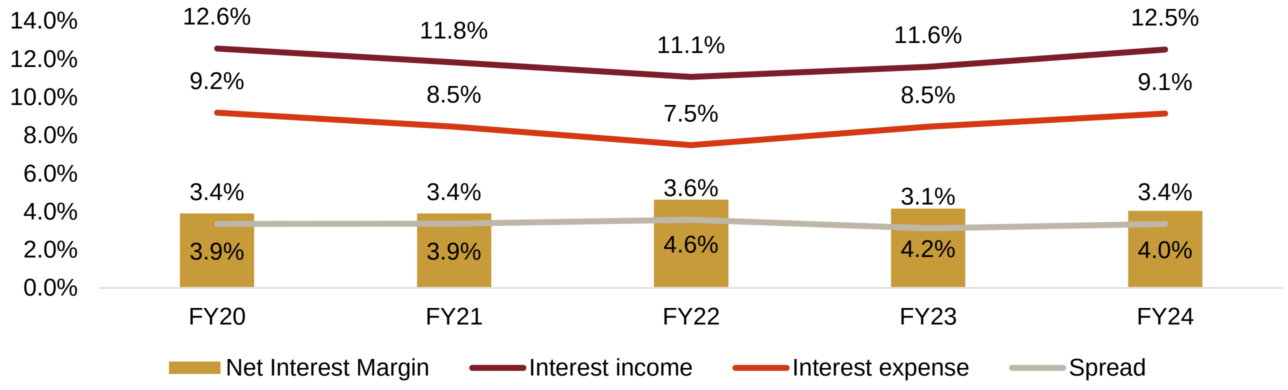


Note: E – Estimated, Players considered for above data are Avanse and HDFC Credila; Source: Company reports, CRISIL MI&A

Profitability of education loan NBFCs improved in fiscal 2024

The yield on advance for education loan NBFCs increased in fiscal 2024 driven by growth in the loan book as incremental loans were priced higher and existing floating rate loans were repriced. Further, the cost of funds increased, driven by repricing of bank borrowings which dominate the borrowing mix of NBFCs. The increase is passed on to the customers. However, profitability has increased marginally this fiscal owing to a lag between rise in cost of borrowings and increase in yields because of old portfolio drag. Net interest margins (NIMs) compressed to ~4.0% in fiscal 2024 from ~4.2% in fiscal 2023 because of an increase in gearing and rise in the cost of funds. Credit costs remained steady owing to upfronting of a large portion of these costs in the form of write-offs in fiscal 2023. Going forward, they are expected to report a marginal decline, driven by controlled slippage and write-offs on the back of comfortable capitalisation. That said, current repayment trends are expected to hold up in the near term. Further, operating expenses will decrease owing to a higher economy of scale led by loan books. As a result, return on assets (RoA) increased from 2.1% in fiscal 2023 to 2.4% in fiscal 2024.

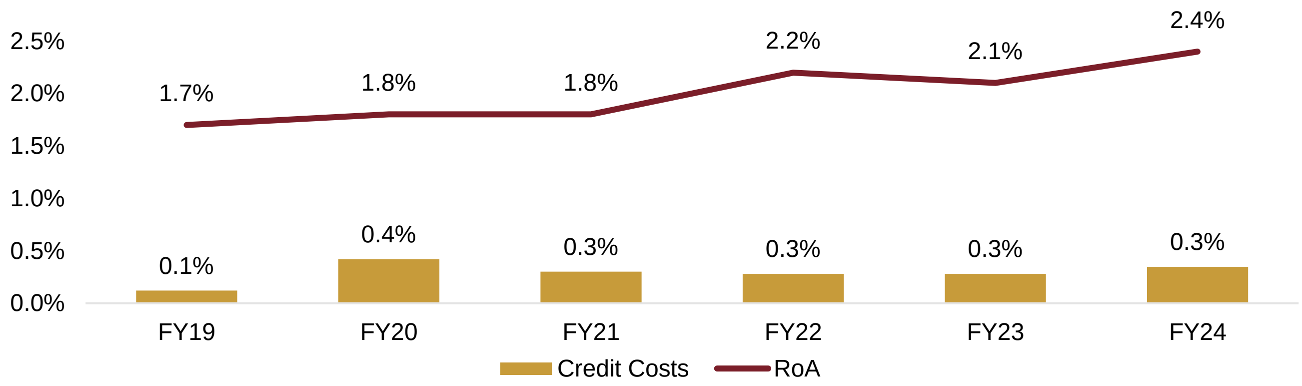
NIMs saw a marginal decline in fiscal 2024



Note: Players considered for above data are Avanse and HDFC Credila

Source: Company reports, CRISIL MI&A

RoA and credit cost for education loan NBFCs



Note: Players considered for above data are Avanse and HDFC Credila; Source: Company reports, CRISIL MI&A

Regulations on education loans in India

In 2000, the Indian Banks' Association (IBA) formed a study group to determine the role of commercial banks in providing education loans to poor but meritorious students who want to pursue higher education in India or abroad. The study group came up with a Comprehensive Model Education Loan Scheme that seeks to provide affordable financial support to meritorious students for pursuing higher education in India or abroad. In April 2001, the RBI issued a circular directing all scheduled commercial banks to adopt the scheme. Given below are some of the important features of the scheme as amended in 2022:

- **Expenses considered for loan** — Fees payable to college/ hostel, examination/ library/ laboratory fees, travel expenses, passage money for studies abroad, purchase of uniform, books & equipment, etc.
- **Minimum margin requirements** — No margin for loans up to Rs 0.4 million for study in India and abroad. For loans above Rs 0.4 million and up to Rs 0.75 million, 5% margin is required for study in India and 15% for study abroad. For loans above Rs 0.75 million, margin will be based on the bank's discretion.

- **Security** — For loans up to Rs 0.75 million, no security is required apart from inclusion of parent or guardian as a joint borrower. For those above Rs 0.75 million, tangible collateral security of suitable value and inclusion of parent or guardian as joint borrower was also made mandatory. However, the implementing bank has the discretion to make changes suiting to the convenience of the students/ parents to make it more customer friendly.

- **Repayment** — Repayment moratorium is course period plus one year and loan repayment is divided into equal monthly instalments for 15 years; no penalty on prepayment.

In September 2020, the RBI brought educational loans (including for vocational courses) of up to Rs 2.0 million under the ambit of priority sector lending (PSL). The step was taken to help the population from the low-income group get support for education financing. Lenders have been witnessing a steady rise in the number of applications for education loans every year because of the implementation of the Model Educational Loan Scheme of the IBA, increased awareness about the benefits of the scheme and classification of education loans as PSL. The RBI and IBA's continuous endeavour to make the scheme even more transparent will continue to support students in getting educational loans to purse higher education in India and abroad.

Key factors aiding education loan industry

Increasing demand for overseas higher education in India

The number of Indian students opting for overseas education is growing due to the ambitions of students and parents for degrees from esteemed foreign universities, which offer diverse courses, international exposure, global perspective, access to better lifestyle and higher earning capability. CRISIL MI&A expects demand for overseas higher education to continue to rise.

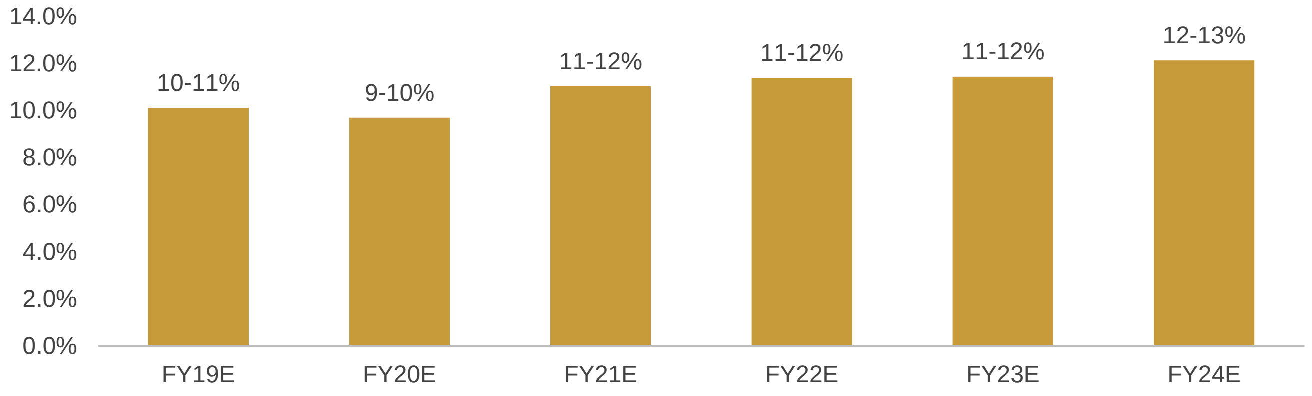
Differentiated distribution approach

Education loans require a differentiated distribution approach as compared to traditional loans, which are typically reliant on a physical branch network. Hence, lenders resort to distribution of education loans through educational counsellors, aggregators, DSAs, education institutions, digital marketing, and other educational forums. This differentiated approach followed by the lenders enable them to increase their reach and cater to a wider population even with limited branch footprint.

Low finance penetration in education market offers ample opportunity for lenders

Despite the rising demand for education loans in India, the finance penetration in the education industry remained quite low at 12-13% as of fiscal 2024. One of the reasons for this is that there are only a few players in the market with specialized model for education loans (particularly in the NBFC space). Hence, majority of the low-income and middle-income groups is significantly underserved. This gives immense opportunity for lenders in the industry to expand their businesses.

Finance penetration in domestic education sector low at 12-13% as of fiscal 2024



Note: E – estimated; Source: CRIFHighMark, UDISE+ reports, AISHE reports/data, CRISIL MI&A

Going forward, CRISIL expects finance penetration in undergraduate education to rise, led by education-focused lenders.

Overview of Education Infrastructure in India

The total number of K-12 institutions (including government and private schools) as of fiscal year 2021-22 was 1,489,115 while the number of private unaided schools during the same period stood at 335,844. Majority of the schools in India lack quality infrastructure and hence the sector requires significant investments in infrastructure, reflecting the country's size, population, and socio-economic disparities. Addressing these needs is critical for improving educational outcomes and ensuring equitable access to quality education for all students. Some of the key infrastructure requirements in the education sector include:

- **Basic facilities:** Many schools, especially in Tier 2 and Tier 3 cities, lack basic infrastructure such as functional classrooms, toilets, and drinking water facilities. Ensuring these basic needs are met is a fundamental requirement for all educational institutions.

- **Technology integration:** There is a growing need for integrating technology into the educational infrastructure to enhance learning experiences. This includes providing computers, smart classrooms, and internet connectivity, particularly to bridge the digital divide in the country and provide more immersive and experiential learning to the student. Additionally, offering well-equipped laboratories for science, computer, and language learning, as well as libraries with updated resources, are essential for quality education. Further, to prepare students for the future, there is significant investment in state-of-the-art STEM (Science, Technology, Engineering, and Mathematics) laboratories and modern libraries that foster research and innovation.

- **Safety and accessibility:** Education Infrastructure should be safe and accessible to all students, including those with disabilities. Further, addressing concerns relating to aging infrastructure by construction or renovation of school buildings, implementing and adhering to the changing building safety codes are imperative. Schools are also upgrading their infrastructure by implementing green buildings and other sustainable practices for long-term benefits.

- **Transportation:** In many parts of India, primarily in rural and semi-urban regions, the students face difficulties in reaching educational institutions due to the lack of safe and reliable transportation. Infrastructure development in this area is crucial and a lot of schools also invest in providing these services to make their school more accessible & a preferred one in the location they operate in.

- **Sports, physical education and fine arts facilities:** Adequate facilities for sports and physical education are often lacking but are essential for the holistic development of students. Furthermore, by renting out for performances or events these spaces could also serve as potential revenue generation streams for schools.

- **Hostels and housing:** For higher education institutions, especially in semi-urban and urban areas, providing student housing is a critical need to accommodate students from various regions. While several schools offer hostel facilities in the country, ensuring that a commensurate expansion of hostel accommodation and maintenance is necessary alongside an increase in student admissions.

There exists a substantial gap in the quality of education in India which could be attributed to the inadequate quality of educational institutions' infrastructure setup. Moreover, the low GER drives the need for targeted efforts that need to be undertaken to improve the educational infrastructure landscape.

Addressing the above-mentioned infrastructure requirements necessitates a targeted effort from the supply-side between the government, private sector, and civil society.

Overview of Working Capital requirements of Educational Institutions

The educational institutions in India also have working capital requirements to ensure schools can effectively manage their finances, support daily operations, and invest in initiatives that promote educational excellence. These requirements vary depending on factors such as its size, location, enrolment numbers, operational expenses, and seasonal fluctuations. However, some common working capital requirements for schools include the following:

- **Payroll:** Salaries and wages for teachers, administrative staff, and other employees constitute a significant portion of a school's operating expenses. Working capital is needed to ensure timely payment of salaries, especially during months with higher staffing requirements or variable pay schedules.
- **Utilities and maintenance:** Schools must cover ongoing expenses such as electricity, water, heating, cooling, maintenance, and repairs to keep facilities operational and safe for students and staff. Working capital is necessary to address these regular expenses promptly.
- **Supplies and materials:** Schools require various supplies and materials for teaching, learning, and administrative purposes, including textbooks, stationery, classroom materials, technology equipment, and office supplies. Adequate working capital ensures the availability of these resources without disruptions.
- **Program expenses:** Funding is needed for extracurricular activities, sports programs, field trips, special events, and other educational initiatives that enhance the learning experience for students. Working capital supports the implementation and maintenance of these programs.
- **Enrolment fluctuations:** Schools may experience fluctuations in enrolment throughout the academic year, affecting revenue streams from tuition fees and other sources. Working capital helps bridge gaps in cash flow during periods of lower enrolment or when awaiting payments from students or funding agencies.

By accurately assessing these working capital requirements, ensuring sufficient liquidity, schools can effectively manage their finances, support daily operations, and invest in initiatives that promote educational excellence. In the overall education market, some schools rely more heavily on working capital loans if they experience cash flow challenges or unexpected expenses (for instance, challenges associated with timely payment of fees from students, sudden drop in enrolments, Covid-19, etc), while others may use them sparingly, preferring to manage cash flow through budgeting, fundraising, or optimizing revenue streams.

Overview of Educational Institution Loans Market in India

Educational institution loans typically refer to financial assistance provided by banks and financial institutions to schools, colleges and other educational institutions. These comprise loans towards infrastructure and working capital needs of such educational institutions. Such loans aim to support the expansion and improvement of educational facilities to meet the growing needs of the population for more such institutions and expansion within existing institutions. The end-use of such loans generally involves construction, renovation, equipment purchase, and other infrastructure-related expenses. These loans play a crucial role in enhancing access to quality education and fostering educational development across the country and typically come with several features tailored to meet the specific needs of educational institutions. Some of the common features of such education infrastructure loans are as follows:

- **Purpose-Specific Funding:** Loans are designed to cover expenses related to the development, expansion, or improvement of infrastructure, including construction, renovation, equipment purchase, and technology upgrades.
- **Flexible Repayment Terms:** Lenders often offer flexible repayment options tailored to cash flows of educational institutions e.g., longer repayment tenures and moratorium periods to allow time for the institution to generate revenue.
- **Competitive Interest Rates:** To encourage investment in education, lenders may offer competitive interest rates on education infrastructure loans, making them more affordable for educational institutions.
- **Collateral Requirements:** Depending on the loan amount and terms, lenders may require collateral such as property, land, or other assets to secure the loan.
- **Quick Approval Process:** Lenders may offer a streamlined approval process for education infrastructure loans to expedite the funding process and enable institutions to start their projects promptly.
- **Customized Loan Amounts:** Education infrastructure loans can be customized to suit the specific needs of the educational institution, with end uses ranging from small-scale projects to large-scale infrastructure developments.
- **Government Subsidies or Guarantees:** In some cases, the government may provide subsidies or guarantees to lenders to encourage lending to educational institutions, thereby reducing the financial burden on the institutions.

In addition, the educational institutions also seek working capital loans for covering short-term operational expenses, such as payroll, utilities, maintenance, and supplies. These loans can help bridge gaps in cash flow, especially during periods of enrolment fluctuations or unexpected expenses. Many financial institutions offer working capital loans tailored to the needs of educational institutions, providing flexible repayment terms and competitive interest rates.

Growth drivers for Education Infrastructure Loan Market

CRISIL expects that increasing demand for education, government support, technological advancements, private sector participation, and favourable investment climate would contribute significantly to the growth of education infrastructure loans in India. Some of the factors which is likely to aid the market are as follows:

- **Rising Demand for Education:** With a growing population, increasing awareness about the importance of education, and rising propensity to consume among the population, there is a rising demand for education infrastructure, including schools, colleges, vocational training centres, and skill development institutes.

- **Capacity building:** To meet the increasing demand for education, educational institutions would have to increase student intake, thereby expanding capacity to adequately accommodate larger classrooms, to ensure comfortable learning atmosphere by means of construction, renovation or expansion projects – necessitating growth capital.

- **Government Initiatives:** Government initiatives such as the "Education for All" campaign and schemes like Sarva Shiksha Abhiyan (SSA), Rashtriya Madhyamik Shiksha Abhiyan (RMSA), and Atal Tinkering Labs (ATL) aim to improve access to quality education and promote infrastructure development in the education sector, providing opportunities for funding through loans.

- **Urbanization and Infrastructure Development:** Rapid urbanization and infrastructure development in tier 2 and tier 3 cities are driving the need for new educational institutions and the expansion of existing ones, leading to increased demand for education infrastructure loans.

- **Expectation of Superior Infra Facilities**: Private schools are expected to offer better quality of education and superior physical & digital infrastructure compared to other players. With higher infrastructure specifications these educational institutions are expected to respond to long-term opportunities and as a result, would be subject to incurring higher capital expenditure. This opens opportunities for financiers offering education infrastructure loans to tap into.

- **Technological Advancements:** The integration of technology in education, such as e-learning platforms, smart classrooms, and digital libraries, requires investments in infrastructure and technology upgrades, driving the need for funding through education infrastructure loans.

- **Private Sector Participation:** The involvement of private players in the education sector, including corporate-run schools, universities, and coaching institutes, has led to increased investment in education infrastructure, with many institutions opting for loans to finance their projects.

- **Foreign Direct Investment (FDI):** The liberalization of FDI norms in the education sector has encouraged foreign investors to invest in educational infrastructure projects in India, providing an additional funding avenue through loans.

- **Increasing Finance Penetration:** Players offering education infrastructure loans and growth capital to educational institutions across management type, location etc. have seen an increase in finance penetration because more schools are upgrading the existing infrastructure in schools to meet the demand of the students. Further, rising awareness levels among the educational institutions on availing loans of this nature has also led to a rise in finance penetration.

- **Skill Development Initiatives:** Government-led skill development initiatives, vocational training programs are driving the need for infrastructure development in educational institutions, creating opportunities for education infrastructure loans.

- **Social Impact Investing:** There is a growing trend of social impact investing, where investors seek to generate positive social outcomes alongside financial returns. Investments in education infrastructure projects align with this trend, attracting funding through loans from socially responsible investors.

Addressable market (Cumulative Infrastructure spending & Working capital requirement of education institutions) for financiers is estimated at Rs. 13-13.5 trillion between fiscal years 2023-24 & 2028-29

According to CRISIL MI&A, the total revenue generated by private unaided schools with a minimum enrolment of 250 students is estimated at Rs. 28 trillion between fiscal year 2024 and fiscal year 2029. The total infrastructure spending of the education institutions is estimated to reach ~Rs 7 trillion between fiscal 2024 and fiscal 2029. CRISIL estimates this to have grown from Rs. 594 billion in fiscal 2022 to Rs. 889 billion in fiscal 2024, growing at a CAGR ~22% (3-year CAGR of ~13% between fiscal 2021 and fiscal 2024). The working capital requirement of the education institutions (which includes salaries paid to teachers and staff, expenses incurred for utilities and maintenance of schools and other expenses) is estimated to be ~Rs. 782 billion in fiscal 2024, growing at CAGR of 22.3% between fiscal 2022 and fiscal 2024 (3-year CAGR of ~13.1% between fiscal 2021 and fiscal 2024). CRISIL projects total working capital requirement of schools between fiscal 2024 and fiscal 2029 to reach Rs. 6-6.2 trillion. As a result, the total addressable market at an overall level, including the infrastructure spending and working capital requirement of the schools between fiscal year 2023-24 and 2028-29 to reach Rs. 13.0-13.5 trillion.

Growth in K-12 enrolments is estimated to be driven primarily by the private unaided schools, thereby driving their need to place upgrade existing infrastructure. Private unaided institutions in the K-12 market, responding to the long-term growth opportunity of developing infrastructure facilities, are making significant capital expenditure. Propelled by factors including technology integration into the curriculum, increasing aspirations/needs of families and students, increased focus on holistic development of the student, higher capital expenditure by these institutions is expected continue in the future as well. This offers an immense opportunity for financiers lending education infrastructure loans to offer growth capital to this category.

Estimated Total Revenue of Private Unaided K-12 Institutions between FY2023-24 & FY2028-29

Cumulative Number of Students (in million) between FY2023-24 & FY2028-29	Estimated Average Tuition Fee (in Rs)	Revenue (Rs in Billion)
~559 million	49,700 – 50,700	~27,500 – 28,500

Note: Above numbers are estimated; Source: UDISE, NSSO, CRISIL MI&A Estimates

Estimated Infra Spending by Private Unaided Schools between FY2023-24 & FY2028-29

Average Capital Expenditure Incurred by Schools as a Proportion of Average Revenue (%)	Total Addressable market (Rs in Billion)
25%	6,970 – 7,060

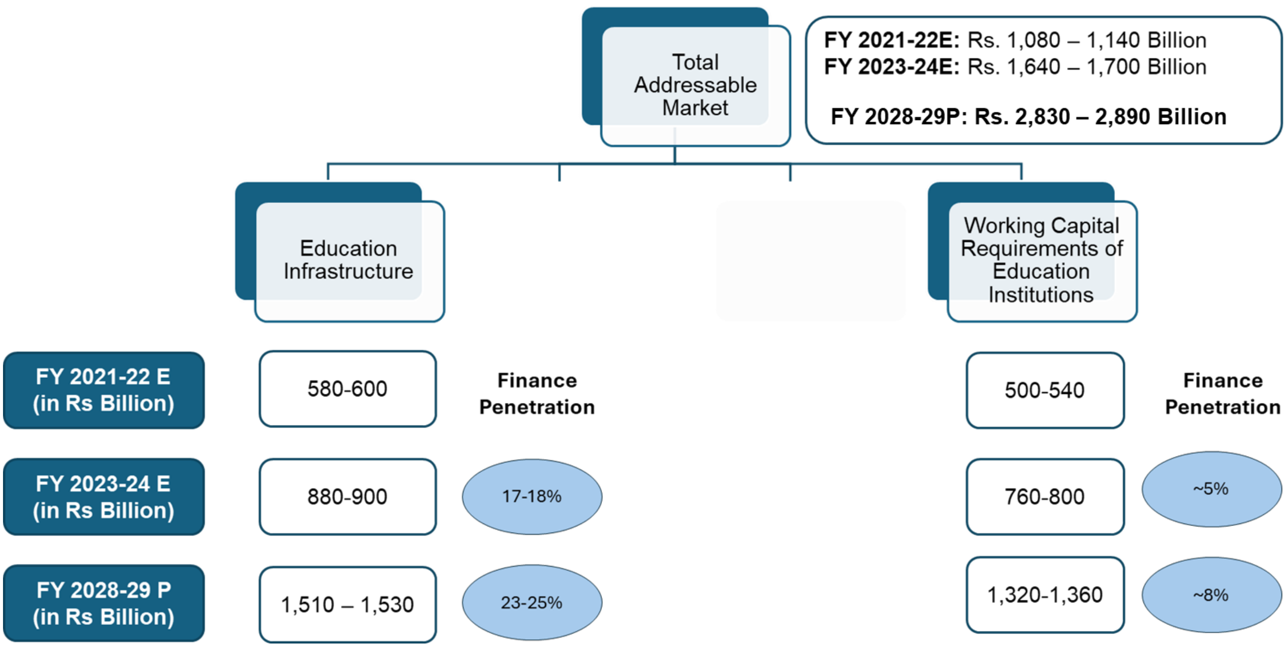
Note: Above numbers are estimated; Source: CRISIL MI&A Estimates

Estimated Working Capital Requirement of Private Unaided Schools between FY2023-24 & FY2028-29

Average Working Capital as a Proportion of Average Revenue (%)	Total Addressable market (Rs in Billion)
22%	6,100 – 6,200

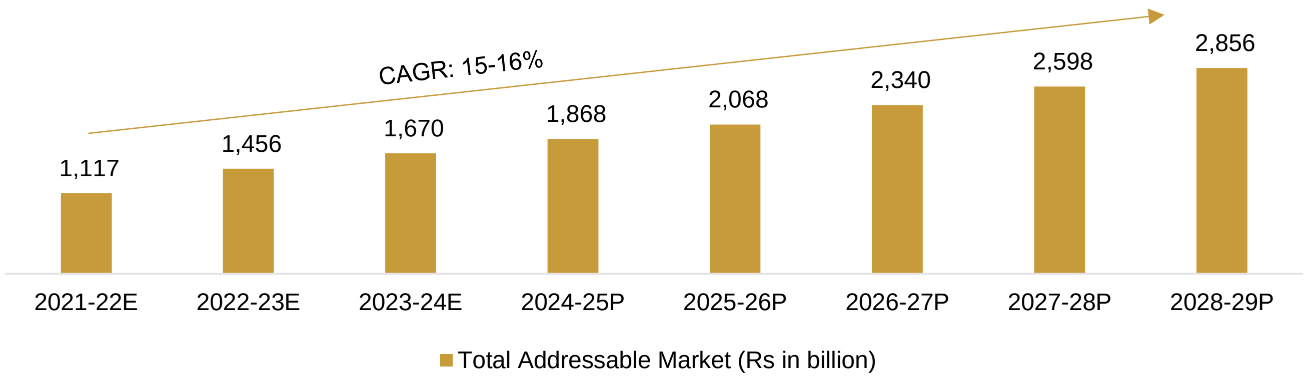
Note: Above numbers are estimated; Source: CRISIL MI&A Estimates

Infrastructure spending and Working capital requirements of Education Institutions



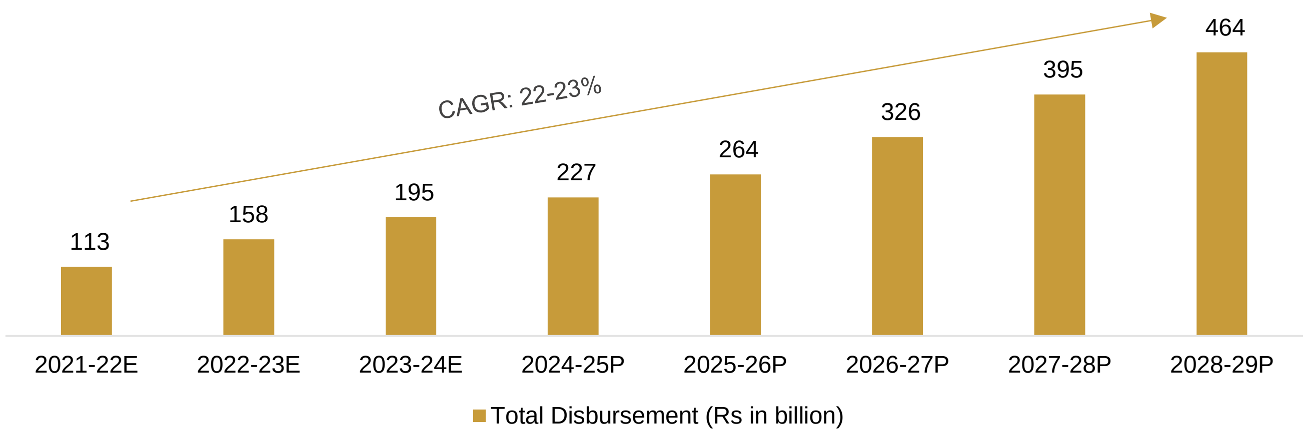
Note: E: Estimated, P: Projected, Years denote Fiscal Year; Source: UDISE, NSSO, CRISIL MI&A Estimates

Infrastructure spending & Working Capital requirement of Education Institutions is expected to reach ~Rs 2.9 trillion during fiscal year 2028-29, growing at a CAGR of ~15-16% between fiscal years 2021-22 and 2028-29



Note: E: Estimated, P: Projected, Years denote Fiscal Year; Source: UDISE, NSSO, CRISIL MI&A Estimates

Disbursements estimated to grow at 22-23% between fiscal years 2021-22 & 2028-29



Note: E: Estimated, P: Projected, Years denote Fiscal Year; Source: UDISE, NSSO, CRISIL MI&A Estimates

Overall finance penetration is expected to see a steady increase in the medium term, reaching ~16.2% by the end of fiscal year 2028-29 from an estimated 11.6% in 2023-24

Total finance penetration (including working capital, infrastructure) is estimated at ~11.6% for fiscal 2024 and is expected to reach 16.2% by the end of fiscal 2029. CRISIL MI&A expects the finance penetration rates to see a steady increase across both categories. Factors enabling this growth are attributed to accommodating the increasing student enrolment because of rising demand for education, key collective efforts from the government supporting GER targets, improving quality of teachers and pedagogy, adapting to technological advancements, private sector participation, and a favourable investment climate.

Underwriting Education Infrastructure Loans

The underwriting process for education infrastructure loans in India involves assessment borrower creditworthiness and viability of the project. Throughout the process, the lender works closely with the educational institution to gather necessary information, address concerns, and ensure transparency in the loan approval process. Key elements of underwriting considered by financiers when trying to evaluate a request for an education infrastructure loan:

- **Application Submission:** The educational institution submits a loan application to the lender, providing details about the proposed infrastructure project, including purpose of the loan, project cost, timeline, and other relevant information.
- **Documentation Review:** The lender reviews the application and required documentation, which may include financial statements, project feasibility studies, property documents, legal clearances, and any other supporting documents.
- **Promoter Assessment:** The lenders assess the Promoters, his/her creditworthiness, structure of the trust, the track record of the trust while evaluating the school for financing.
- **Credit Assessment:** The lender conducts a thorough credit assessment of the educational institution to evaluate its financial stability, repayment capacity, past credit history, management track record, as well as overall creditworthiness. Further financiers also define various guardrails such as minimum of students, vintage, leverage thresholds apart from standard credit parameters
- **Collateral Evaluation:** If collateral is required for the loan, the lender evaluates the value and quality of the proposed collateral to determine its adequacy to secure the loan amount.
- **Project Feasibility Analysis:** The lender assesses the feasibility of the proposed infrastructure project, considering factors such as demand for educational services, market dynamics, competition, regulatory requirements, and potential risks. Further, it also looks at how the enrolments, tuition fee and the revenue potential of the school would change in future, subject to implementation of the project.
- **Cash Flow Analysis:** The lender analyses the cash flow projections of the educational institution to ensure that it will generate sufficient revenue to repay the loan on time, considering operating expenses, loan repayment obligations, and other financial commitments of the institution.
- **Risk Assessment:** The lender conducts a comprehensive risk assessment to identify potential risks associated with the loan, including credit risk and project-specific risks.
- **Loan Structuring:** Based on the findings of the underwriting process, the lender structures the loan terms, including loan amount, interest rate, repayment schedule, tenure, and other relevant terms to mitigate the risk.

Threats & Challenges in Educational Institutions loan for the Financiers:

Financiers providing loans to educational institutions face several risks, which include the following:

- **Construction and Project Risk:** For loans used to fund an institution’s infrastructure projects, there is a risk of cost overruns, delays, or project failures that can affect the institution's ability to repay the loan.
- **Market Risk:** Shifts in the education market, such as declining enrolment rates, increased competition, or changing demand for certain types of education, can impact the institution's revenue streams.
- **Natural Disaster Risk:** Institutions may be affected by natural disasters, which can disrupt operations, damage infrastructure, and impact financial stability.

Peer Comparison

For Peer Benchmarking, CRISIL has considered NBFCs, which are focused on Education loans and Education Infrastructure Loans. The NBFCs focused on education loans include HDFC Credila Financial Services Limited ("HDFC Credila"), Avanse Financial Services Limited ("Avanse") and Auxilo Finserve Private Limited ("Auxilo") based on the size of AUM.

Other NBFCs focused on education infrastructure loans include Varthana Finance Private Limited ("Varthana") and Shiksha Financial Services Limited ("Shiksha") which have been considered for the peer comparison.

Avanse has the highest average ticket size of education loans disbursed by peers

The average ticket size of student loans - international offered stood at Rs 3.31 million for Avanse which was higher than the average ticket size of loans offered HDFC Credila (~Rs. 2.0-2.5 million) and Auxilo (Rs. 2.0 million). Typically, education institutions of higher quality tend to command higher fees, thereby resulting in higher ticket size loans availed by students.

Average ticket size among peers

Players	Average Ticket Size
Student Loans Focused NBFCs	
HDFC Credila	Rs. 2.0-2.5 million
Avanse	< Rs.3.31 million
Auxilo	~ Rs. 2.0 million
Education Institution Loans Focused NBFCs	
Varthana	< Rs. 30 million
Shiksha	Rs. 0.015 – 0.030 million

Note: N.A – Not Available; Source: Company Reports, Company Website, CRISIL MI&A

HDFC Credila and Auxilo places high focus on catering to the education loans

While HDFC Credila and Auxilo are primarily focused on education loans, Avanse is one of the multi-products NBFC with Student loans - International forming 78.28% of its lending book, rest comprising largely of Education Institution Loans and Education Loan (Domestic) and residual MSME focused business which was discontinued in fiscal 2020.

Avanse, is the second-largest education focused NBFC in India by AUM as of March 2023 & March 2024, and offers a full stack education offering with products ranging from education loans for students, to growth capital for education institutions via education infrastructure loans.

Among the educational institution focused NBFCs, Shiksha is more focused towards Loan Against Property and Microfinance loans through a business correspondent while Varthana has strong focus on school financing.

Product wise advances mix as of March 2024

Players	Student Loan - International	Education Institution Loan	Education Loan – Domestic	Others
Student Loans Focused NBFCs				
HDFC Credila	100%	-	-	-
Avanse	78.28%	17.04%	2.71%	1.97%*
Auxilo^	95%	5%	-	-
Education Institution Loans Focused NBFCs				
Varthana^^	5.20%	94.80%**	-	-
Shiksha^^	9%	-	-	91%***

Note: (^)- Data as of September 2023; (^^) – Data as of Fiscal 2023; (*) – Others include – Cross sell, LAP & loans purchased under direct assignment & discontinued business - non-education focused lending which was discontinued in FY20; (**) Includes Secured and unsecured loans offered to educational institutions; (***) - Others include - LAP loan portfolio (own book) and MFI, BC portfolio (managed book)

Avanse has a wide coverage with strong focus on offering education loans across countries

As of 31st March 2024, Avanse offered a wide coverage of offering loans to students going to 49+ countries. Avanse also works with 1,500+ counsellors, aggregators and loan intermediaries to further increase the reach and support offered to students availing education loans. As per the website of HDFC Credila, they have offered loans to students across 61 countries as of March 2024. HDFC Credila and Avanse have a network on 25 and 12 branches respectively at end of March 2024.

Avanse Financial Services and its subsidiary together is the first financial institution in India to offer both Indian Rupee and foreign currency denominated student loans ("Foreign Currency Loans") for studying overseas. While Avanse Financial Services offers loans in Indian currency, Foreign Currency Loans are offered by its wholly owned subsidiary Avanse Global Finance IFSC Private Limited, registered with IFSCA as a 'Finance Company' at GIFT City, Gandhinagar, Gujarat.

Distribution footprint of Peers – March 2023 & March 2024

NBFCs	Employees		Branches	
	March 2023	March 2024	March 2023	March 2024
Student Loans Focused NBFCs				
HDFC Credila	462	N.A.	25	25
Avanse	521	672	12^	12^
Auxilo	263	349	7	7*
Education Institution Loans Focused NBFCs				
Varthana	N.A.	N.A.	41	38
Shiksha	283	N.A.	39	N.A.

*Note: N.A – Not Available; *As of 31st December 2023; ^ Data doesn't include 7 Sales Representative Offices; Source: Company Reports, CRISIL MI&A*

Avanse is the second largest education focused NBFC in India by AUM as of March 2023 & March 2024; Avanse is also the second largest education focused NBFC in India by Disbursements in Fiscal 2023

The overall Assets Under Management (AUM) of Avanse was Rs. 133.0 billion as of March 2024, clocking the second highest 3-year CAGR of 62% between March 2021 and March 2024 among the peers considered. With a strong focus on overseas education loans and education infrastructure loans, Avanse recorded disbursements of Rs. 63.4 billion in fiscal 2024, clocking 3-year CAGR of 87% between fiscal 2021 and fiscal 2024. Avanse also recorded the second highest disbursements for fiscal 2023 and registered the second highest growth in disbursements from fiscal 2020 to fiscal 2023, with a CAGR of 80%. In fiscal 2024, Avanse also reported the second-highest profit after tax of Rs 3.4 billion, led by HDFC Credila with Rs 5.3 billion.

Size of the companies (FY24 / March 2024)

Players	AUM (Rs Million) Mar-24	AUM CAGR (Mar 21-Mar 24)	Disbursements (Rs Million) FY24	Disbursements CAGR (FY21-FY24)	PAT (Rs Million) Mar 24	PAT CAGR (Mar 21-Mar 24)	Shareholder's Equity (Mar-24)
Student Loans Focused NBFCs							
HDFC Credila	280,832^	65%^	N.A.	N.A.	5,288	50%	50,434
Avanse	133,031	62%	63,350	86%	3,424	108%	36.767
Auxilo	28,785	75%	13,435	136%	692	93%	9,883
Education Institution Loans Focused NBFCs							
Varthana	11,370*	21%**	N.A.	N.A.	N.A.	N.A.	N.A.
Shiksha	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

*Note: N.A. – Not Available; ^Data pertains to net advances; *Data as of 31st December 2023; **AUM growth from 31st March 2023 to 31st December 2023*

Source: Company Reports, CRISIL MI&A

Size of the Companies (FY23/ March 2023)

NBFCs	AUM (Rs Million) March 2023	AUM CAGR (March 2020 – March 2023)	Disbursements (Rs Million) FY23	Disbursements CAGR (FY20-FY23)	PAT (Rs Million) FY23	PAT CAGR (FY20-FY23)	Shareholder's Equity (March 2023)
Student Loans Focused NBFCs							
HDFC Credila	152,980	35%	79,920	56%	2,759	30.9%	24,351
Avanse	86,461	42%	61,416	80%	1,577	94.2%	21,497
Auxilo	16,905	47%	10,162	216%*	257	102.9%	4,583
Education Institution Loans Focused NBFCs							
Varthana	9,384	-5%	3,720	2%	1,208	-29.1%	4,026
Shiksha	653	-29%	49	-58%	(169)	N.Ap.	564

Note: N.Ap.: Not Applicable; (*) – CAGR for FY21-23 has been computed basis availability; Players have been arranged in descending order of AUM as of Fiscal 2023; Source: Company Reports, CRISIL MI&A

Avanse reported the highest net interest margins and second highest yield on advances in fiscal 2024 among the select peers

At end of fiscal 2024, Avanse reported highest net interest margin, standing at 4.72% amongst the peers considered. Auxilo reported the second highest net interest margin at 4.68%, followed by HDFC Credila at 3.71% in fiscal 2024. Avanse also reported second highest yield on advances of 13.35%, followed by HDFC Credila at 12.10%. Auxilo (13.76%) had the highest yield on advances.

Profitability Parameters – Fiscal 2024

Players	Yield on advances (%)	Cost of funds (%)	NIMs (%)	Total Income (%)
Student Loans Focused NBFCs				
HDFC Credila	12.10%*	8.72%	3.71%	11.54%
Avanse	13.35%	10.10%	4.72%	14.36%
Auxilo	13.76%	10.26%	4.68%	13.80%
Education Institution Loans Focused NBFCs				
Varthana	N.A.	N.A.	N.A.	N.A.
Shiksha	N.A.	N.A.	N.A.	N.A.

Note: NA: Not Available; (*) Yield on advances calculated on interest income as a % of average advances; Source: Company Reports, CRISIL MI&A

Profitability Parameters – Fiscal 2023

NBFCs	Yield on advances (%)	Cost of funds (%)	NIMs (%)	Total Income (%)
Student Loans Focused NBFCs				
HDFC Credila	10.83%	7.68%	3.93%	10.58%
Avanse	12.98%	9.55%**	4.57%	13.04%
Auxilo	13.79%	9.96%	5.27%	13.55%
Education Institution Loans Focused NBFCs				
Varthana	17.81%	11.17%	8.76%	17.17%
Shiksha	15.97%*	15.58%	5.68%	22.31%

*Note: (*) Yield on advances calculated on interest income as a % of average advances ** Includes Securitisation*

Source: Company Reports, CRISIL MI&A

Borrowing mix of players – March 2024

NBFCs	Bonds/NCDs	Loans from banks, FIs	Commercial paper	Others
Student Loans Focused NBFCs				
HDFC Credila*	17.29%	74.01%	6.29%	2.41%
Avanse	30.62%	58.59%	-	10.79%
Auxilo	10.29%	84.45%	-	5.25%
Education Institution Loans Focused NBFCs				
Varthana	N.A.	N.A.	N.A.	N.A.
Shiksha**	38.1%	25.9%	-	36%

Note: (*): Data as of 31st December 2023; (**): Data as of 31st March 2023; NA: Not Available; Source: Company Reports, CRISIL MI&A

Avanse reported the best return on assets under management as of Fiscal 2024

Avanse generated the highest return on average assets under management (AUM) at 3.12% as of Fiscal 2024, followed by Auxilo at 3.05% and HDFC Credila at 2.44% during the same period.

Avanse is among the top two players with one of the lowest cost to income and operating expense to total assets ratio amongst the considered peer set as of Fiscal 2024

Avanse is among the top players with one of the lowest cost to income ratio of 36.84%, only behind HDFC Credila (27.10%) as of Fiscal 2024. Avanse is also among the top two players with the best operating expense to total assets ratio at 2.61% in Fiscal 2024.

Avanse is among the top two players with the one of the best opex to AUM ratio as of Fiscal 2024

Avanse has one of the lowest opex to AUM ratio at 2.86% of fiscal 2024 among the peers considered. This was led by HDFC Credila with an opex to AUM at 1.30% during the same period. Auxilo reported an opex to AUM ratio of 3.18% as of fiscal 2024 which was the highest in the peer set considered.

Avanse has one of the highest pre-provision operating profit margin amongst its peers as of Fiscal 2024

Avanse is among the top two players with the highest pre-provision operating profit (PPOP) margin of 31.17% as of Fiscal 2024. HDFC Credila reported the highest PPOP margin of 27.36% during the same period.

Avanse reported one of the best asset quality amongst the peers considered as of Fiscal 2024

As of fiscal 2024, the asset quality of Avanse was among the best in the peers considered with a GNPA ratio of 0.43%, followed by Auxilo (0.87%). HDFC Credila has the best asset quality of 0.08% amongst the peer set during the same period. Avanse also reported a lower NNPA ratio of 0.13% in fiscal 2024. Avanse's student loan portfolio - International reported a GNPA of 0.08% as of fiscal 2024.

Avanse reported the highest Provision Coverage Ratio among the peer set considered as of Fiscal 2024

The provision coverage ratio of Avanse was the highest among peers and stands at a healthy rate of 69.77% as of Fiscal 2024. This was followed by HDFC Credila with 62.50% and Auxilo with 42.53% as of Fiscal 2024.

Avanse reported highest RoA and second highest RoE among peers considered at end of fiscal 2024

Avanse recorded the highest RoA of 2.84% and second highest RoE of 11.75% among the peer set considered as of fiscal 2024. This was followed by Auxilo with an RoA of 2.60%. HDFC Credila recorded the highest RoE of 14.14% and RoA of 2.20% respectively for fiscal 2024.

Avanse is adequately levered at 2.76x as of fiscal 2024

Among the student loan focused NBFCs, Avanse is adequately levered at 2.76x as of fiscal 2024, while Auxilo was leveraged at 2.37x during the same period. HDFC Credila's leverage stood at 5.16x as of fiscal 2024. Avanse holds a Capital Adequacy Ratio (CRAR) of 24.86% as of fiscal 2023, well above the mandatory requirement. Among the educational institution focused lenders, Shiksha, Varthana held a higher CRAR.

Key ratios– FY24 / March 2024

Players	AUM/Branch (Rs million)	Cost to Income (%)	Opex to Total Assets (%)	Opex to AUM (%)	PPOP (%)	GNPA (%)	NNPA (%)	Credit cost (%)	Provision Coverage Ratio (%)	RoA (%)	Return on Assets Under Management (%)	RoE (%)	Leverage (times)	CRAR (%)
	Student Loans Focused NBFCs													
HDFC Credila	11,233	27.10%	1.17%	1.30%	27.36%	0.08%	0.03%	0.21%	62.50%	2.20%	2.44%	14.14%	5.16	N.A.
Avanse	11,086	36.84%	2.61%	2.86%	31.17%	0.43%	0.13%	0.66%	69.77%	2.84%	3.12%	11.75%	2.76	N.A.
Auxilo	4,112	42.18%	2.73%	3.18%	27.08%	0.87%	0.50%	0.26%	42.53%	2.60%	3.03%	9.57%	2.37	31.49%
	Education Institution Loans Focused NBFCs													
Varthana	252*	N.A.	N.A.	N.A.	N.A.	5.8%*	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Shiksha	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

*Note: NA: Not Available, For Avanse, equity infusion of around Rs. 10 billion took place March 24 which is leading to reduction in ROE for the whole year; *As of H1FY24; For HDFC Credila and Auxilo, net advances have been considered in place of AUM for FY24; Source: Company Reports, CRISIL MI&A*

Key Ratios – 9MFY24/ December 2023 Players	RoA (%) (^)	RoE (%) (^)
	Student Loans Focused NBFCs	
HDFC Credila	3.64%	17.18%
Avanse	3.01%	14.28%
Auxilo	2.43%	8.61%
	Education Institution Loans Focused NBFCs	
Varthana	N.A.	N.A.
Shiksha	N.A.	N.A.

Note: NA: Not Available; (^) Annualized Numbers; Source: Company Reports, CRISIL MI&A

Key ratios– FY23/ March 2023

Players	AUM/Branch (Rs million)	Cost to Income (%)	Opex to Total Assets (%)	Opex to AUM (%)	PPOP (%)	GNPA (%)	NNPA (%)	Credit cost (%)	Provision Coverage Ratio (%)	RoA (%)	Return on Assets Under Management (%)	RoE (%)	Leverage (times)	CRAR (%)
	Student Loans Focused NBFCs													
HDFC Credila	5,884	29.43%	1.24%	1.31%	28.13%	0.17%	0.10%	0.08%	41.18%	2.16%	2.29%	14.54%	5.61	20.42%
Avanse	7,205	42.73%	2.53%	2.85%	26.05%	0.56%	0.17%	0.61%	69.64%	2.08%	2.34%	9.99%	3.35	24.86%
Auxilo	2,415	58.84%	3.98%	4.56%	20.57%	1.70%	1.20%	0.32%	29.41%	1.83%	2.09%	6.08%	3.19	24.70%
	Education Institution Loans Focused NBFCs													
Varthana	N.A.	67.88%	7.68%	8.82%	21.16%	6.70%	5.97%	2.96%	10.90%	0.50%	0.57%	1.4%	1.50	57.10%
Shiksha	17	97.85%	15.67%	21.61%	1.55%	43.41%	15.72%	16.22%	63.79%	-12.73%	-17.55%	-26.96%	0.12	88.85%

Source: Company Reports, CRISIL MI&A

Avanse holds a long-term credit rating of AA-

Below table includes the short term & long-term credit rating of the peer set considered, wherein Avanse holds a rating of AA- basis long term rating after HDFC Credila Financial Services holding a rating of AA+.

Credit Ratings of Players

Players	Long Term Rating	Short Term Rating
Student Loans Focused NBFCs		
HDFC Credila	CRISIL AA+/CRISIL AA/Stable (Mar 2024), ICRA AA/ICRA AA-/Stable (Apr 2024), CARE AA/CARE AA-/Stable	CRISIL A1+ (May 2024), ICRA A1+ (Apr 2024)
Avanse	BWR AA – (Jan 2024), CARE AA-/Stable (Feb 2024)	ICRA A1+ (Nov 2023), CARE A1+ (Feb 2024)
Auxilo	CRISIL A+/CRISIL PPMLD A+/Stable (Mar 2024), CARE A+/Stable (Mar 2024)	CARE A1+ (Mar 2024)
Education Institution Loans Focused NBFCs		
Varthana	CRISIL BBB/Stable (Mar 2024)	N.Ap.
Shiksha	N.Ap.	N.Ap.

Note: N.A: Not Applicable; Source: Company Reports, CRISIL MI&A

List of Formulae

Parameters	Formula
RoA	Profit after tax / average of total assets on book (2-point year end average)
RoE	Profit after tax / average net worth (2-point year end average)

Parameters	Formula
NIM	(Interest income – interest expense)/ average of total assets on book (2-point year end average)
Total Income	Total Income/ average of total assets on book (2-point year end average)
Yield on advance	Interest earned on loans and advances / average of total advances on book (2-point year end average)
Cost of borrowing	Interest expenses (excluding interest on lease liabilities)/ (average of deposits and borrowings) (2-point year end average)
Opex	Operating Expenditure (Employee Expenses + Depreciation and amortization expense + Other expenses) / average of total assets on book (2-point year end average)
Opex to AUM	Operating Expenditure (Employee Expenses + Depreciation and amortization expense + Other expenses) / average total assets under management (2-point year end average)
Credit Cost	Provisions / average total assets on book (2-point year end average)
Provision Coverage Ratio	(GNPA – NNPA) / GNPA
Pre-provision operating profit	Total Income - Interest Expense – Opex / Total Income
Cost to income	Operating expenses / (net interest income + other income + fee income)
Return on Assets Managed	Profit after tax / average total assets under management (2-point year end average)
Leverage	Total borrowings / average net worth (2-point year end average)