

## Rating Rationale

August 26, 2024 | Mumbai

### Avanse Financial Services Limited

'CRISIL AA-/Stable' assigned to Bank Debt and Non Convertible Debentures

#### Rating Action

|                                  |                              |
|----------------------------------|------------------------------|
| Total Bank Loan Facilities Rated | Rs.9000 Crore                |
| Long Term Rating                 | CRISIL AA-/Stable (Assigned) |

|  |                              |
|--|------------------------------|
| Rs.2500 Crore Non Convertible Debentures | CRISIL AA-/Stable (Assigned) |
| Rs.400 Crore Commercial Paper            | CRISIL A1+ (Reaffirmed)      |

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AA-/Stable**' rating to the bank loan ratings of Rs 9,000 crore and non-convertible debentures (NCD) of Rs 2,500 crore of Avanse Financial Services Ltd (Avanse). CRISIL Ratings have reaffirmed short terms ratings at 'CRISIL A1+'

The rating is driven by the healthy capitalisation, strong market position in the overseas education loan segment and improving profitability of the company. These strengths are partially offset by asset quality performance, which remains monitorable as the book seasons given high recent growth in the portfolio.

Incorporated in 2013, Avanse offers Student Loans – International (SLI), Educational Institution Loans (EIL), Education Loans – Domestic (ELD) and Others. SLI are primarily for STEM/ MBA courses; EIL caters to funding to schools with a minimum operating vintage of three years. Assets under management (AUM) as on March 31, 2024, stood at Rs. 13,303 crore vis-à-vis Rs. 3,103 crore as on March 31, 2021, recording a three-year compound annual growth rate of 62%. AUM as on June 30, 2024 stood Rs. 14,799 crore. Of this, SLI formed 80% of the AUM, EIL - 16%, ELD formed 2% while the remaining 2% were from Others. Supported by healthy growth, the company commands a strong market position in the overseas education financing segment as the second-largest non-bank financier.

Given steady growth over the past few years and characteristics of such loans, the asset quality performance of these cohorts remains to be seen. However, comfort is derived from the past performance of pools (originated before 2021), which have a track record in terms of equated monthly installment (EMI) payments and have sustained minimal losses. The company has developed appropriate systems and processes in place to underwrite these loans. Further, education loans have a coborrower in India as a risk mitigant.

The strong growth in AUM has been supported by a healthy capitalisation profile, which has been driven by regular capital infusions by marquee investors such as Warburg Pincus, IFC, Kedaara Capital and Mubadala. Resultantly, networth was Rs. 3,786 crore as on June 30, 2024 with an on-book gearing of 2.7 times. Capitalisation profile is also supported by improving internal cash accruals due to better profitability metrics over the past few years. Return on managed assets (RoMA) stood at 2.8%, on annualized basis, in the first quarter of fiscal 2025 (2.7% in fiscal 2024 and 2.0% in fiscal 2023) and was supported by improving cost to income ratio and controlled credit cost.

#### Analytical Approach

CRISIL Ratings has assessed the standalone credit risk profile of Avanse.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Healthy capitalisation with demonstrated track record of raising capital at regular intervals:** Avanse is well capitalised with regard to its scale and nature of operations and has demonstrated a track record of raising equity at regular intervals. The increase in net worth from Rs 900 crore as on March 31, 2020 to Rs 3,786 crore as on June 30,

2024 was supported by regular capital raises through the years. Capital adequacy ratio was comfortably above the regulatory requirement at 25.5% as on June 30, 2024, along with an on-book gearing of 2.7 times.

Avanse has cumulatively raised around Rs. 3,250 crore over fiscals 2020 to 2024, of which approximately Rs. 2,500 crore was primary infusion. Of the primary infusion, Rs. 300 crore was extended by Warburg Pincus and IFC in fiscal 2020, Rs. 390 crore via rights issue subscribed by Warburg Pincus and IFC in fiscal 2023, Rs. 800 crore by Kedaara Capital over fiscals 2023 to 2024 and Rs. 1,000 crore by Mubadala and Avendus in fiscal 2024. IFC has been investing since 2013 and holds 11% stake in the company. Warburg Pincus has invested since 2019 and holds 57% stake. Other investors such as Kedaara, Mubadala and Avendus picked up stake during fiscals 2023 to 2024 and hold 17%, 10% and 1% stake, respectively on a fully diluted basis.

On a steady-state basis, Avanse intends to operate at a gearing of around 4 times. The company plans to raise Rs 1,000 crore primary capital via the initial public offering. This, along with the improving internal accruals is expected to support growth over the medium term.

- **Strong market position in the education loan segment:** Avanse extends financing to students, primarily for overseas education which includes tuition fees and living expenses. The company's AUM grew to Rs. 13,303 crore as on March 31, 2024, and further to Rs. 14,799 crore as of June 30, 2024, from Rs. 8,646 crore as on March 31, 2023 (Rs 4,836 crore as on March 31, 2022). Within the three key products, SLI grew the fastest at 79% year-on-year and the EIL segment grew by 30% during the fiscal. On the other hand, the ELD portfolio contracted year-on-year due to change in strategy in the sub products financed. The growth momentum remained intact with 11% year to date growth in 1Q FY25. In the SLI book, growth was largely led by increased demand and higher penetration in existing key geographies such as the US (54% as on June 30, 2024) and the UK (26%). The average ticket size of the SLI book is ~Rs. 33 lakhs and sanctioned tenor of the loans is ~10-15 years.

Avanse has an omnichannel sourcing model; however, majority of the sourcing is via counsellor and education-focused aggregators. In terms of courses financed, the company focuses primarily on post graduate courses of which STEM (science, technology, engineering, and mathematics) courses formed 74% of the overseas loans while finance and management formed 23% and others 3%.

The education loans market is a niche segment, and a few non-banks are present in this segment. Overseas education financing opportunities have been growing with the increase in number of students travelling abroad for higher studies. Avanse has steadily been able to gain market share over the years and holds a strong position mainly in overseas education loans. With the overall industry, AUM of education loans estimated at around Rs 1.66 lakh crore<sup>^</sup> as on December 31, 2023, of which ~57% pertains to overseas education. Of the total, Avanse had a share of around ~7%, translating to nearly a ~10% share in the overseas segment.

The share of NBFCs in the overseas education market has been steadily increasing over the years. Going ahead, the underpenetrated gross enrolment ratio, favourable demographics and increased interest from students to study abroad should push growth in the overseas education financing segment, in turn providing a growth runway for Avanse as well.

- **Improving profitability metrics:** The company has witnessed an improving trend in profitability supported by business growth, with return of average assets (ROAA) increasing steadily from 1.4% in FY22, to 2.8% in FY24. With an average borrowing cost at 10.1%, and a blended yield of ~13-14%, the company is able to generate net interest margin (NIMs) of 4.4%-4.7%. Other income largely comprises of fee-based income and some income from direct assignment (DA) and co-lending (CLM) transactions. The profitability in FY24 was also supported by higher insurance commission and higher DA & CLM income versus the previous year. Accordingly, non-interest income increased to 1.8% on average total assets for Q1FY25, from 1.3% in FY23, with this income comprising of insurance commission (33%), forex commission (18%), DA income (30%), prepayment and other charges (14%) and fair value gains (5%) for FY24.

Operating efficiency has been on an improving trend with increase in scale and based on the fact that the business is not primarily driven by a brick-and-mortar model. Cost to income ratio has improved to 36.8% in fiscal 2024 from 60.5% in fiscal 2021. Profitability remained steady for 1QFY25 with ROAA at 3.0% (annualized). Supported by healthy NIMs, improving operating expenses ratio and controlled credit costs, profitability has maintained an improving trajectory. As the book seasons, the ability to further improve operating efficiency and manage credit costs will remain a monitorable.

#### **Weakness:**

- **Asset quality performance to remain monitorable, given high growth in the portfolio:** Asset quality has been stable, with gross Stage 3 assets remaining low at 0.35% (Rs 49.1 crore) as on June 30, 2024, versus 0.43% (Rs 53.2 crore) as on March 31, 2024, and 0.56% (Rs 47.2 crore) as on March 31, 2023. On a product basis, the SLI book has been better performing with 90+ days past due (dpd) of just 0.09% as of June 30, 2024 and low credit losses vis-à-vis other business segments. Even at an overall level, credit costs have remained under control ranging at 0.4-0.7% over the last four fiscals. The company incurred write-offs of Rs. 28 crore in FY23 and Rs. 46 crore in FY24 crore primarily from the ELD portfolio towards online courses which the company is scaling down and discontinued legacy SME loans.

As on March 31, 2024, the overall EMI paying book forms 26% of the total AUM. However, AUM of the SLI book under principal moratorium, where the company collects partial interest or simple interest, remained high at ~91% with the rest being EMI based loans. However, even when 90+ dpd on the EMI book is assessed basis a one-year lag, it remains benign at 0.13%. An analysis of the peak delinquencies on the vintage pool also shows that the 90+ dpd remains below 0.72% with write offs of merely Rs. 10.5 crore since 2017.

Overseas education loans generally have moratorium to cover the study period and one year grace period, if opted by the borrower, post which the repayment cycle begins. However, comfort can be drawn from the structurally high level of prepayments and repayments in this business with behavioral repayment tenor of 6-7 years for Avanse. This is also a reflection of the quality of underwriting which in turn is a function of the company's own database of university and course level mapping, primary assessment around the student's past academic performance and future employability basis their university-course combination and lastly a parent / relative as co-borrower on the loan. Further, the company does not offer a full moratorium for any loan, and there is either a partial interest or a simple interest payable post disbursement. This allows the company to enable tracking of repayment behavior post disbursement itself.

Given the SLI book has seen sizeable growth with substantial disbursements in fiscals 2022 (Rs 1,551 crore), 2023 (Rs 3,408 crore) and 2024 (Rs 4,713 crore), the impact of seasoning is yet to be seen. Therefore, the ability to manage asset quality will need to be demonstrated over a longer period.

^CRISIL MI&A

### **Liquidity: Strong**

The company had adequate liquidity of Rs. 526 crore in the form of cash bank balances and liquid investments and unutilised bank lines of Rs. 1,372 crore as on June 30, 2024; this is sufficient to meet debt repayment till December 2024. Liquidity coverage ratio stood comfortable at 360% for the year ended March 31, 2024, against the regulatory minimum of 85%.

### **Outlook: Stable**

CRISIL Rating believes that the company will continue to maintain healthy capitalization metrics and sustain growth momentum. However, asset quality performance, while under control, will continue to be monitored

### **Rating sensitivity factors**

#### **Upward factors**

- Significant scale up in business while maintaining the asset quality
- Material improvement in market position and profitability metrics

#### **Downward factors**

- Any sustained deterioration in asset quality and earnings profile of the company
- Weakening in capitalisation metrics with gearing greater than 4 times on sustained basis

### **About the Company**

Avanse is a non banking financial company and categorized as NBFC – Middle Layer as per scale based regulations issued by RBI and engaged primarily in the business of financing education of students and providing education infrastructure loans to schools. Avanse was incorporated in 2013, initially backed by Dewan Housing Finance and the Wadhawan Group. In 2019, Warburg Pincus's affiliate entity -- Olive Vine Investment Ltd -- acquired a majority stake. Avanse has a student base enrolled across 1,550+ education institutions and 49+ countries with majority of student loans for courses in US, UK and Canada. The company has 19 branches and sales representative offices across major education hubs in India.

AUM grew by 54% year-on-year to Rs. 13,303 crore as on March 31, 2024 and further by 11% year to date to Rs. 14,799 crore as of June 30, 2024. Profit after tax (PAT) was Rs. 343 crore on total income of Rs. 1,728 crore for fiscal 2024, against Rs. 158 crore and Rs. 990 crore, respectively, for the previous fiscal.

PAT for the first quarter ended June 30, 2024 stood at Rs. 107 crore on a total income of Rs. 499 crore, versus Rs. 62 crore and Rs. 343 crore respectively, for the same period last year.

### **Key Financial Indicators**

| As on/for the period ended | Unit     | Mar-24 | Mar-23 | Mar-22 |
|----------------------------|----------|--------|--------|--------|
| Total assets               | Rs crore | 14,344 | 9,730  | 5,453  |
| Total income               | Rs crore | 1,728  | 990    | 509    |
| PAT                        | Rs crore | 343    | 158    | 63     |
| Gross Stage 3 assets       | %        | 0.43   | 0.56   | 1.29   |
| Gearing                    | Times    | 2.8    | 3.4    | 4.1    |
| Return on managed assets   | %        | 2.7    | 2.0    | 1.4    |

| As on/for the period ended | Unit     | Jun-24 | Jun-23 |
|----------------------------|----------|--------|--------|
| Total assets               | Rs crore | 14,518 | 11,040 |

|                                 |                 |                         |                         |
|---------------------------------|-----------------|-------------------------|-------------------------|
| <b>Total income</b>             | <b>Rs crore</b> | <b>499</b>              | <b>343</b>              |
| <b>PAT</b>                      | <b>Rs crore</b> | <b>107</b>              | <b>62</b>               |
| <b>Gross Stage 3 assets</b>     | <b>%</b>        | <b>0.35</b>             | <b>0.63</b>             |
| <b>Gearing</b>                  | <b>Times</b>    | <b>2.7</b>              | <b>3.4</b>              |
| <b>Return on managed assets</b> | <b>%</b>        | <b>2.8 (annualized)</b> | <b>2.4 (annualized)</b> |

**Any other information:** Not Applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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**Annexure - Details of Instrument(s)**

| ISIN | Name Of Instrument                    | Date Of Allotment | Coupon Rate (%) | Maturity Date | Issue Size (Rs. Crore) | Complexity Levels | Rating Outstanding with Outlook |
|------|---------------------------------------|-------------------|-----------------|---------------|------------------------|-------------------|---------------------------------|
| NA   | Commercial Paper                      | NA                | NA              | 7 to 365 Days | 400.00                 | Simple            | CRISIL A1+                      |
| NA   | Non Convertible Debentures#           | NA                | NA              | NA            | 2500.00                | Simple            | CRISIL AA-/Stable               |
| NA   | Proposed Long Term Bank Loan Facility | NA                | NA              | NA            | 9000.00                | NA                | CRISIL AA-/Stable               |

# Yet to be issued

**Annexure - Rating History for last 3 Years**

| Instrument                 | Type | Current            |                   | 2024 (History) |            | 2023 |        | 2022 |        | 2021 |        | Start of 2021 |
|----------------------------|------|--------------------|-------------------|----------------|------------|------|--------|------|--------|------|--------|---------------|
|                            |      | Outstanding Amount | Rating            | Date           | Rating     | Date | Rating | Date | Rating | Date | Rating | Rating        |
| Fund Based Facilities      | LT   | 9000.0             | CRISIL AA-/Stable |                | --         |      | --     |      | --     |      | --     | --            |
| Commercial Paper           | ST   | 400.0              | CRISIL A1+        | 06-08-24       | CRISIL A1+ |      | --     |      | --     |      | --     | Withdrawn     |
| Non Convertible Debentures | LT   | 2500.0             | CRISIL AA-/Stable |                | --         |      | --     |      | --     |      | --     | --            |

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

| Facility                              | Amount (Rs.Crore) | Name of Lender | Rating            |
|---------------------------------------|-------------------|----------------|-------------------|
| Proposed Long Term Bank Loan Facility | 9000              | Not Applicable | CRISIL AA-/Stable |

**Criteria Details**

|  |
|--|
| <b>Links to related criteria</b>   |
| <a href="#">Rating Criteria for Finance Companies</a>                              |
| <a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a> |
| <a href="#">CRISILs Criteria for rating short term debt</a>                        |

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