

Ref. No. AFSL/SECL/2024-25/068

August 7, 2024

The Manager
Listing Department
BSE Limited, P.J. Towers,
Dalal Street, Mumbai - 400 001

Dear Sir/Madam,

Sub: Intimation of new Credit Rating of Avanse Financial Services Limited (“the Company”) by CRISIL Limited

Pursuant to Regulation 51(2) read with Part B of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that the Company has been assigned the rating CRISIL A1+ (pronounced as CRISIL A one plus) by CRISIL Limited for its Commercial Paper Programme of Rs. 400 crore.

Please find below the details of the rating of the Company:

Name of the Company	Credit Rating Agency	Instrument	Rating assigned
Avanse Financial Services Limited	CRISIL Limited	Commercial Paper for Rs. 400 crore	CRISIL A1+

The rating letter from CRISIL Limited dated August 6, 2024 is enclosed. The rating rationale can be accessed on the website of the credit rating agency at <https://www.crisilratings.com/en/home/our-business/ratings/company-factsheet.AVSFSPL.html>.

We request you to take the same on your records.

For Avanse Financial Services Limited

Rajesh Gandhi
Company Secretary and Compliance Officer

Encl.: As above

RL/AVSFSP/344207/CP/0824/95192
August 06, 2024

Mr. Vikrant Gandhi
Chief Financial Officer
Avanse Financial Services Limited
4th floor, E Wing, Times Square,
Andheri Kurla Road, Marol, Andheri East,
Mumbai City - 400059
9930720368



Dear Mr. Vikrant Gandhi,

Re: CRISIL Rating on the Rs.400 Crore Commercial Paper of Avanse Financial Services Limited

We refer to your request for a rating for the captioned Debt Programme.

CRISIL Ratings has, after due consideration, assigned a CRISIL A1+ (pronounced as CRISIL A one plus rating) rating to the captioned Debt Programme. Securities with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations. Such securities carry lowest credit risk.

For the purpose of issuance of captioned commercial paper programme, this letter is valid for 60 calendar days from the date of the letter. In the event of your company not placing the above programme within this period, or in the event of any change in the size/structure of your proposed issue, the rating shall have to be reviewed and a letter of revalidation shall have to be issued to you. Once the instrument is issued, the above rating is valid (unless revised) throughout the life of the captioned Commercial Paper Programme with a maximum maturity of one year.

As per our Rating Agreement, CRISIL Ratings would disseminate the rating through its publications and other media, and keep the rating under surveillance for the life of the instrument. CRISIL Ratings reserves the right to withdraw or revise the ratings assigned to the captioned instrument at any time, on the basis of new information, or unavailability of information or other circumstances, which CRISIL Ratings believes, may have an impact on the rating. Please visit www.crisilratings.com and search with the name of the rated entity to access the latest rating/s.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Aesha Maru
Associate Director - CRISIL Ratings

Nivedita Shibu
Director - CRISIL Ratings



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CRISIL Ratings Limited

A subsidiary of CRISIL Limited, an S&P Global Company
Corporate Identity Number: U67100MH2019PLC326247

Rating Rationale

August 06, 2024 | Mumbai

Avanse Financial Services Limited

'CRISIL A1+' assigned to Commercial Paper

Rating Action

Rs.400 Crore Commercial Paper	CRISIL A1+ (Assigned)
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL A1+**' rating to the Rs 400 crore commercial paper of Avanse Financial Services Ltd (Avanse).

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 limited asset quality track record given the high recent growth of the portfolio.

Incorporated in 2013, Avanse offers overseas education loans (EL), education institution loans (EIL) and domestic education loans. Education loans are primarily for post graduate courses; EIL caters to funding to schools with a minimum operating vintage of five years. Assets under management (AUM) as on March 31, 2024, stood at Rs 13,303 crore vis-a-vis Rs 3,103 crore as on March 31, 2021, recording a three-year compound annual growth rate of 62%. Of this, EL formed 78% of the AUM, EIL - 17%, domestic education loans formed 3% while the remaining 2% were from the cross-sell segment. 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 3,677 crore as on March 31, 2024 with an on-book gearing of 2.8 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 2.7% in fiscal 2024 (2.0% in fiscal 2023 and 1.4% in fiscal 2022) 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 networth from Rs 900 crore as on March 31, 2020 to Rs 3,677 crore as on March 31, 2024 was supported by regular capital raises through the years. Capital adequacy ratio was comfortably above the regulatory requirement at 27.5% as on March 31, 2024, along with an on-book gearing of 2.8 times.

Avanse has cumulatively raised around Rs 3,250 crore over fiscals 2020 to 2024, of which 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 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, from Rs 8,646 crore a year ago (Rs 4,836 crore as on March 31, 2022). Within the three key product segments, EL grew the fastest at 79% year-on-year and the EIL segment grew by 30% during the fiscal. On the other hand, the domestic student loan portfolio contracted year-on-year due to change in strategy in the sub products financed. In the EL book, growth was largely led by increased demand and higher penetration in existing key geographies such as the US (57% as on March 31, 2024) and the UK (23%). The average ticket size of the EL book is ~Rs 28 lakhs and tenor of the loans is ~10-12 years.

Avanse has an omnichannel sourcing model; however, majority of the sourcing is via counsellor and education-focused aggregators. The company has 12 branches across cities with significant demand in overseas education. In terms of courses financed, the company focuses only 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 1.6 lakh crore as on March 31, 2024, of which ~50% pertains to overseas education. Of the total, Avanse had a share of around ~7%, translating to nearly a ~14% share in the overseas segment.

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 2.0% in FY23 and further surging to 2.7% in FY24. With an average borrowing cost at 10%, and a blended yield of ~13.5-14%, the company is able to generate a spread of 3.5-4% translating into net interest margin (NIMs) of 4.4%-4.6%. 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 received post the change in the Expenses of Management guidelines for the insurance industry and higher DA & CLM income versus the previous year. Accordingly, non-interest income increased to 2.3% on average total assets for FY24, 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%).

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. 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 0.43% (Rs 53.2 crore) as on March 31, 2024, from 0.56% (Rs 47.2 crore) as on March 31, 2023, and 1.29% (Rs 62.9 crore) as on March 31, 2022. On a segmental basis, the EL book has been better performing with 90+ days past due (dpd) of just 0.06% and low credit losses vis-à-vis other business segments. Even at an overall level, credit costs have remained under control ranging at 0.4-0.6% 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 domestic education loan portfolio especially in the discontinued SME segment and in the loans towards online courses which the company is scaling down.

As on March 31, 2024, AUM of the EL book under principal moratorium was ~91% and the remaining were 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 0.82% with write offs of merely Rs 7 crore since 2017.

Overseas education loans generally have a two-year moratorium to cover the study period and one year grace period, 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 at around 6 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.

Notably, the EL 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). Thus, at an AUM level, about ~91% of this book remains under moratorium and 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.

Liquidity: Superior

The company had adequate liquidity of Rs 571 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%.

Rating Sensitivity factors

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 systemically important non-deposit taking non-banking financial company 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 12 branches across cities with significant demand in overseas education.

AUM grew by 54% year-on-year to Rs 13,303 crore as on March 31, 2024, from Rs 8,646 crore a year ago. 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.

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	3.6
Return on assets	%	2.7	2.0	1.4

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.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Commercial Paper	NA	NA	7 to 365 Days	400	Simple	CRISIL A1+

Annexure - Rating History for last 3 Years

Instrument	Current			2024 (History)		2023		2022		2021		Start of 2021
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	400.0	CRISIL A1+		--		--		--		--	Withdrawn

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

[Rating Criteria for Finance Companies](#)

[CRISILs Criteria for rating short term debt](#)

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