

Rating Rationale

May 26, 2025 | Mumbai

Avanse Financial Services Limited

'Crisil AA-/Stable' assigned to Subordinated Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.9000 Crore
Long Term Rating	Crisil AA-/Stable (Reaffirmed)

Rs.250 Crore Subordinated Debt	Crisil AA-/Stable (Assigned)
Rs.2500 Crore Non Convertible Debentures	Crisil AA-/Stable (Reaffirmed)
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 subordinated debt of Avanse Financial Services Ltd (Avanse) and reaffirmed its 'Crisil AA-/Stable/Crisil A1+' ratings on the bank loan facilities and debt instruments of the company.

The rating is driven by the company's healthy capitalisation, strong market position in the overseas education loan segment and improving profitability. 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, 2025, stood at Rs. 18,985 crore vis-à-vis Rs. 3,103 crore as on March 31, 2021, recording a four-year compound annual growth rate of 57%. Of this, SLI formed 80% of the AUM, EIL - 16%, ELD - 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 2022), 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, net worth was Rs. 4,143 crore as on March 31, 2025 with an on-book gearing of 3.5 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% in fiscal 2025 (2.7% in fiscal 2024 and 2.0% in fiscal 2023) and was supported by improving operating leverage 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 4,142 crore as on March 31, 2025 was supported by regular capital raises through the years. Capital adequacy ratio was comfortably above the regulatory requirement at 22.4% as on March 31, 2025, along with an on-book gearing of 3.5 times.

Avanse has cumulatively raised around Rs. 3,250 crore over fiscals 2020 to 2025, 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 an 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. 18,985 crore as on March 31, 2025, from Rs. 13,303 crore as on March 31, 2024 (Rs 8,646 crore as on March 31, 2023). Within the three key products, SLI grew the fastest at 47% year-on-year and the EIL segment grew by 35% during the fiscal. On the other hand, the ELD portfolio contracted for a second consecutive year due to change in strategy in the sub products financed. In the SLI book, growth was largely led by higher penetration in existing key geographies such as the US (47% as on March 31, 2025) and the UK (34%). There was some moderation in growth in the US portfolio (47% in fiscal 2025, compared to 57% in fiscal 2024), due to a slowdown in enrolments amid visa related uncertainties and management's cautious stance on maintaining quality of the portfolio. Nevertheless, the company's endeavour to diversify presence in other geographies, is expected to help offset impact on moderation in growth of their US portfolio. The average ticket size of the SLI book is ~Rs. 33 lakhs and sanctioned tenor of the loans is ~10-15 years.

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. 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 FY25. With an average borrowing cost at 9.9%, and a blended yield of ~13-14%, the company is able to generate net interest margin (NIMs) of 4.4%-4.7%. Other income comprises of fee-based income and income from direct assignment (DA) and co-lending (CLM) transactions.

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. Operating expenses as a proportion of average managed assets improved to 2.2% in fiscal 2025 as against 2.5% in the previous fiscal. Profitability remained steady for FY25 with ROAA at 2.8%. Supported by stable 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.

Weaknesses:

- **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 0.26% (Rs 45 crore) as on March 31, 2025, versus 0.43% (Rs 53 crore) as on March 31, 2024, and 0.56% (Rs 47 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 0.10% as of March 31, 2025 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 five fiscals. The company incurred write-offs of Rs. 28 crore in FY23, Rs. 46 crore in FY24 and Rs 18 crore in FY25 primarily from the ELD portfolio towards online courses which the company is scaling down and discontinued legacy SME loans.

As on March 31, 2025, the overall EMI paying book forms 30% 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 ~85% with the rest being EMI based loans. An analysis of the peak delinquencies on the vintage pool also shows that the 90+ dpd remains below 0.72%.

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 2023 (Rs 3,408 crore), 2024 (Rs 4,713 crore) and 2025 (Rs 5,152 crore), the impact of seasoning is yet to be seen. Therefore, the ability to manage asset quality, more so given each geography's unique political and macroeconomic environments will need to be demonstrated over a longer period.

Liquidity: Strong

The company had adequate liquidity of Rs. 1,481 crore in the form of cash bank balances and liquid investments and unutilised bank lines of Rs. 517 crore as on March 31, 2025; this is sufficient to meet debt repayment till September 30, 2025.

Outlook: Stable

Crisil Rating believes that the company will continue to maintain healthy capitalization metrics. 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 50+ 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 43% year-on-year to Rs. 18,985 crore as on March 31, 2025. Profit after tax (PAT) was Rs. 504 crore on total income of Rs. 2,351 crore for fiscal 2025, against Rs. 343 crore and Rs. 1,728 crore, respectively, for the previous fiscal.

Key Financial Indicators

As on/for the period ended	Unit	Mar-25	Mar-24	Mar-23
Total assets	Rs crore	19,010	14,344	9,730
Total income	Rs crore	2,351	1,728	990
PAT	Rs crore	504	343	158
Gross Stage 3 assets	%	0.26	0.43	0.56
Gearing	Times	3.5	2.8	3.4
Return on managed assets	%	2.8	2.7	2.0

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Commercial Paper	NA	NA	7 to 365 Days	400	Simple	Crisil A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	9,000	NA	Crisil AA-/Stable

NA	Non-Convertible Debenture*	NA	NA	NA	1,200	Simple	Crisil AA-/Stable
NA	Subordinated Debt*	NA	NA	NA	250	Simple	Crisil AA-/Stable
INE087P07410	Non Convertible Debentures	07-Oct-24	9.40	07-Oct-27	350	Simple	Crisil AA-/Stable
INE087P07428	Non Convertible Debentures	16-Oct-24	9.40	16-Apr-27	75	Simple	Crisil AA-/Stable
INE087P07436	Non Convertible Debentures	16-Oct-24	9.56	16-Oct-28	100	Simple	Crisil AA-/Stable
INE087P07444	Non Convertible Debentures	22-Oct-24	9.40	22-Oct-27	250	Simple	Crisil AA-/Stable
INE087P07451	Non Convertible Debentures	31-Oct-24	9.60	30-Apr-27	225	Simple	Crisil AA-/Stable
INE087P07469	Non Convertible Debentures	31-Oct-24	9.40	29-Oct-27	300	Simple	Crisil AA-/Stable

*Yet to be issued

Annexure - Rating History for last 3 Years

Current		2025 (History)		2024		2023		2022		Start of 2022
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	9000.0	Crisil AA-/Stable		--	26-08-24	Crisil AA-/Stable		--	--
Commercial Paper	ST	400.0	Crisil A1+		--	26-08-24	Crisil A1+		--	Withdrawn
			--		--	06-08-24	Crisil A1+		--	--
Non Convertible Debentures	LT	2500.0	Crisil AA-/Stable		--	26-08-24	Crisil AA-/Stable		--	--
Subordinated Debt	LT	250.0	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

Links to related criteria
Basics of Ratings (including default recognition, assessing information adequacy).
Criteria for Finance and Securities companies (including approach for financial ratios).

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