

India Ratings Assigns Avanse Financial Services' Bank Loans and NCDs 'IND AA'/Stable; CP Rated at 'IND A1+'

Feb 25, 2026 | Non Banking Financial Company (NBFC)

India Ratings and Research (Ind-Ra) has rated Avanse Financial Services Ltd's (AVANSE) debt instruments as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Commercial paper	-	-	7 to 365 days	INR2,000	IND A1+	Assigned
Bank loan facilities	-	-	-	INR30,000	IND AA/Stable	Assigned
Non-convertible debentures*	-	-	-	INR20,000	IND AA/Stable	Assigned

*Rated NCDs are yet to be issued

Analytical Approach

Ind-Ra has taken a standalone view of AVANSE to assign the ratings.

Detailed Rationale of the Rating Action

The ratings reflect AVANSE's market leadership, with the company being the second-largest player in the student loan - international segment, its established track record of scaling up, and its profitable operations, with average return on equity of 12% during FY23-9MFY26. The company has been maintaining comfortable capitalisation levels, with a proven track record of regular capital infusions from marquee shareholders. The ratings also factor in AVANSE's experienced management and its diverse funding profile.

The ratings are constrained by product concentration risk, as AVANSE primarily focuses on specialised lending for the student loans - international (SLI) segment, which remains exposed to unfavourable policy changes in the US, which is its key geography (accounts for about 31% of the total assets under management (AUM), though the share of non-US geographies has improved in the last two years). The concentration risk is partially mitigated by the increasing proportion of the company's educational institution loan portfolio (EIL) and domestic education loan segment.

There is potential asset-side risk, given the moderate seasoning of the book, due to the high-growth phase witnessed during FY23-9MFY26 (scale grew by 2.6x during this period). Furthermore, about 62% of the total AUM was under principal moratorium at end-December 2025, reflecting the typical structure of education loans, wherein repayments begin only after the study period and an additional grace period.

As the proportion of EMI paying book increases with seasoning, the company's ability to sustain asset quality and effectively manage collections will be a key monitorable.

List of Key Rating Drivers

Strengths

- Established franchise with specialised capabilities
- Adequate capitalisation to grow franchise supported by internal accrual and capital raise

- Diversified funding profile
- Adequate pre-provision operating profit (PPOP) buffers
- Experienced management

Weaknesses

- High percentage of moratorium in overseas loans leading to limited seasoning

Detailed Description of Key Rating Drivers

Established Franchise With Specialised Capabilities: AVANSE is the second-largest non-banking financial company (NBFC) in the student loans – international segment. As on 31 December 2025, AVANSE's portfolio comprised SLI, EIL, education loans – domestic (ELD), and others. SLI, primarily for science, technology, engineering, and mathematics (STEM) and MBA courses, accounted for 80% of the AUM; EIL, which provides funding to schools with a minimum operating vintage of three years, contributed 17%; ELD represented 2%; and the remaining 1% came from other segments. Post a substantial capital infusion of INR9.9 billion in FY23, AVANSE has demonstrated its ability to achieve scale-up of its lending book. The company's AUM grew by 2.6x to INR227 billion in December 2025 from INR86.5 billion in March 2023, driven by an increase in the number of students going abroad, inflation in education spends in INR terms (including rupee depreciation), and increasing finance penetration. Ind-Ra expects AVANSE's AUM to grow at a CAGR of 20%-25% over FY26-FY28.

AVANSE has a clear niche advantage due to its specialised underwriting model for overseas education loans; within this business, the SLI segment is largely unsecured, and repayment ability depends on the future earnings potential of the student. In the SLI segment, the company assesses borrowers based on academic history, university quality, course-level employment prospects, and economic conditions in destination countries. AVANSE's enterprise risk management systems support this approach through ongoing monitoring of external market conditions, periodic customer data reviews, credit bureau checks on co-borrower, and early-warning analytics. The requirement for partial or full interest servicing during the study period allows for continuous performance tracking and early identification of stress. These practices help to maintain asset quality despite the inherent risks in the product, including a two-year gestation period and exposure to job-market conditions in key geographies such as the US and Canada. While the contractual tenor of these loans is higher, the behavioral tenor of these loans is much lower.

Adequate Capitalisation to Grow Franchise Supported by Internal Accrual and Capital Raise: AVANSE derives strength from its marquee shareholders and their demonstrated track record of capital infusions, which drive the company's growth prospects. The company is backed by strong private equity players such as Olive Vine Investment Limited, which is an affiliate of Warburg Pincus Group (59.3% holding at end-January 2026), International Finance Corporation (11.5%), Kedaara Capital (17.7%), Mubadala Investment Company (via its affiliate, Alpha Investment Company LLC) (10.3%), and Aventus PE Investment Advisors Private Limited (1.1%).

AVANSE has a demonstrated track record of capital raising. During FY20-9MFY26, AVANSE cumulatively raised approximately INR47.7 billion, of which around INR37 billion was through primary equity infusion and compulsorily convertible preference shares (CCPS). Of INR37 billion, the company received capital of INR12 billion in 3QFY26 via the rights issue of CCPS, underscoring the strong confidence and continued commitment of existing investors. At end-December 2025, AVANSE had a healthy tangible equity (net of deferred tax and intangibles) of INR57.8 billion (FY25: INR40.8 billion; FY24: INR33.6 billion) and leverage (debt/tangible equity) of 2.9x (3.5x; 3.0x). On a steady-state basis, AVANSE intends to operate at leverage of less than 4.0x. The company benefits from the presence of marquee investors with long-term capital commitments and significant remaining fund life, positioning it well for continued franchise growth. This, along with the healthy internal accruals (average return on assets of 2.9% during FY24-9MFY26), is likely to support growth over the medium term.

Diversified Funding Profile: At end-December 2025, term loan borrowings constituted 54% (FY25: 57%;FY24:59%) of the overall borrowings, followed by non-convertible debentures (NCDs) (3QFY26: 18%; FY25: 26%, FY24: 31%), external commercial borrowings (ECBs) (3QFY26: 27%; FY25: 16%, FY24: 9%) and others (3QFY26: 0.2%; FY25: 0.5%, FY24: 2%). Moreover, the company is adequately diversified in terms of the type of lending institutions for term loans (foreign banks: five; NBFCs: three; public sector banks: 11; private banks: 15; small finance banks: one). The cost of borrowings

was relatively high at 9.6% in 9MFY26 (FY25: 9.9%; FY24: 10.3%) compared to some of the NBFs with similar credit profiles, as a major portion of AVANSE's on-lending is towards the non-PSL and unsecured categories; however, the same has been reducing gradually. AVANSE has been increasing its usage of direct assignments and co-lending, which strengthens its asset-liability management, since these structures ensure that the funding duration aligns with the life of the underlying assets.

Adequate PPOP Buffers: In 9MFY26, AVANSE generated net interest margins of 4.8%, with the customer segment's average portfolio yield standing at 13.1% and cost of borrowings of 9.6%. Furthermore, the scaling up of AUM, leading to optimum utilisation of the infrastructure, along with improved employee productivity due to improving vintage, can lead to a continued decline in operating cost to average assets (9MFY26: 2.1%; FY25: 2.4%; FY24: 2.6%). This can help AVANSE manage the return on average assets (9MFY26: 2.7%; FY25: 3.0%; FY24: 2.9%) in the face of intense competition that could exert pressure on yields. Ind-Ra will continue to monitor AVANSE's ability to scale its portfolio amid growing competition while managing credit costs, operating expenses, and profitability.

AVANSE's asset quality has remained under control, with gross stage 3 and net stage 3 assets standing at 0.36% (FY25: 0.26%; FY24: 0.43%) and 0.06% (0.04%;0.13%), respectively, in 9MFY26, and healthy provision coverage ratio of 85%. The peak gross stage 3 ratio of the company stood at 1.86% during FY20 (pandemic impacted year). In the SLI segment, at end-December 2025, across total lifetime disbursements, the static-pool GNPA peaked at 0.77% at 60 months on book. The company's credit costs remained moderate at 0.6% in 9MFY26 (FY25: 0.4%; FY24: 0.8%; FY23: 0.7%), as the scale grew by 2.6x during this period, leading to high denominator effect. That being said, AVANSE's pre-provision operating profit margins (9MFY26: 4.2%; FY25: 4.4%; FY24: 4.5%) and pre-provisioning operating profit to credit cost ratio (9MFY26: 7.9x; FY25: 11.4x; FY24: 6.8x) provides adequate cushion to absorb incremental credit costs. Ind-Ra opines that these buffers are adequate to withstand any increase in credit costs in stress credit events.

Experienced Management: AVANSE's founding members have experience of over a decade in education finance. The company has a professional senior management team, comprising members who have been with the organisation for a long time, and are supported by an experienced second line of management to drive the business, which is critical for the strategic continuity, given that the sector is subject to frequent disruptions. Of the total ten directors on the company's board, half are independent and have diverse experience. The investors maintain adequate oversight with board representation (the largest investors mentioned above have board representation), providing strategic inputs to the management team.

High Percentage Of Moratorium in SLI Segment Leading To Limited Seasoning: AVANSE commenced its business operations in January 2013, and although its loan book carries a contracted tenure of around 10 years, the company began achieving significant scale only from FY22. Since then, its growth momentum has been strong, with the AUM reporting a robust CAGR of about 51% over FY22-9MFY26. A key driver of AVANSE's scale has been its SLI portfolio, which accounts for 80% of the AUM. However, nearly 77% of this portfolio—equivalent to about 62% of the total AUM—was under principal moratorium at end-9MFY26, reflecting the typical structure of education loans, wherein repayments begin only after the study period and an additional grace period. However, the seasoning profile is positively influenced by the company's experience of high prepayments, which have effectively shortened the average loan tenure to six to seven years. Moreover, the presence of a mandatory co-borrower (usually parents) acts as an additional risk mitigant for this largely unsecured loan category. This risk is further moderated by the domestic loan portfolio, which is fully secured and begins EMI payments from day one. As a result, EMI-paying loans formed 37% of the total AUM as on 31 December 2025, providing a reasonable balance to the overall portfolio and complementing the predominantly moratorium-driven book.

Liquidity

Adequate: At 3QFYE26, AVANSE had a total liquidity of around INR24.4 billion, combining unencumbered cash, liquid investments, which was sufficient to meet its debt obligations of INR12.6 billion over January-March 2026, without considering any inflows from collections. Furthermore, the company had undrawn sanctioned funds of INR7.2 billion at 3QFYE26. According to the asset-liability management statement (behavioural in nature), at end-December 2025, the company was in a surplus position in the up-to-one-year buckets, with a cumulative surplus (excess of short-term assets over short-term liabilities in the up-to-one-year bucket). The inherent asset-liability tenure mismatches due to the longer

tenure of loans extended is partially offset by higher prepayments. For higher education loans, although the contracted tenure is about 10 years, the actual behavioural tenure is shorter, ranging between six-to-seven years, which benefits the company.

Rating Sensitivities

Positive: Events that could collectively lead to a positive rating action are:

- significant expansion of the franchise, with product diversification and an increasing proportion of secured assets
- sustained demonstration of ability to manage asset quality through the cycle while maintaining profitability buffers

Negative: Events that could, individually or collectively, lead to a negative rating action are:

- a material weakening of the business franchise or a deterioration of the business competitiveness
- any substantial pressure on profitability due to a rise in credit cost or competitive pressures on margins
- leverage exceeding 4.0x on a sustained basis over the medium term
- funding challenges leading to a weakened liquidity profile without sufficient contingent buffers

Any Other Information

Not applicable

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AVANSE, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

AVANSE is a non-deposit taking NBFC registered with the Reserve Bank of India, specialising in education financing for students pursuing studies in India and abroad, as well as lending to educational institutions. The company was incorporated in 1992 as Abhirudhi Holdings Private Limited and later rebranded as Avanse in 2014. Initially held by Dewan Housing Finance Corporation Limited (DHFL), the company saw the International Finance Corporation (IFC) acquire a 20% stake in 2013. Following DHFL's exit in 2019, Olive Vine Investment Limited—an affiliate of private equity funds managed by Warburg Pincus LLC—acquired a 79.67% stake, guiding AVANSE toward becoming a focused, pure-play education finance institution.

As on 31 December 2025, the Warburg Pincus group through Olive Vine Investment Limited held a 59.32% stake in the company, with other notable shareholders including Kedaara Capital, IFC, Mubadala, and Avendus. AVANSE's AUM stood at INR2,26,990 million as on 31 December 2025, underscoring its strong presence in the education finance sector.

Key Financial Indicators

Particulars (Standalone)	9MFY26	FY25	FY24
Total assets (INR billion)	233.6	189.7	143.1
Total equity (INR billion)	57.8	41.0	33.6
Net profit (INR billion)	4.3	5.0	3.4
Return on average assets (%)	2.7	3.0	2.9
Equity/assets (%)	24.7	21.6	23.5
Capital adequacy ratio (%)	26.6	22.4	27.5
Gross stage 3 (%)	0.42	0.26	0.36

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating
Commercial Paper	Short-term	INR2,000	IND A1+
Bank Loan Facilities	Long-Term	INR30,000	IND AA/Stable
Non-convertible debentures	Long-Term	INR20,000	IND AA/Stable

Bank wise Facilities Details

The details are as reported by the issuer as on (25 Feb 2026)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	NA	Unutilised	30000	IND AA/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan facilities	Low
Commercial paper	Low
Non-convertible debentures	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.**Contact****Primary Analyst**

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Evaluating Corporate Governance

Financial Institutions Rating Criteria

Non-Bank Finance Companies Criteria

The Rating Process

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