

November 15, 2023^(Revised)

Avanse Financial Services Limited: [ICRA]A1+ assigned to commercial paper programme

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	[ICRA]A1+; assigned
Total	100.00	

*Instrument details are provided in Annexure I

Rationale

The rating factors in Avanse Financial Services Limited's (Avanse) established presence in the education loan sector, which has supported its increase in scale of operations. The company's assets under management (AUM) stood at Rs. 9,881 crore as on June 30, 2023 (74% of which were education loans). The rating also considers the extensive experience of Avanse's senior management team, and the underwriting supported by a wide database of universities, courses and placements. This has supported its asset quality with low gross stage 3 (GS3) of 0.63% as on June 30, 2023, and low average credit costs of 0.55% in the last three years (FY2021-FY2023) despite the Covid-19 pandemic. The company's capitalisation remains comfortable with a net worth of Rs. 2,378 crore and managed gearing of 3.4 times as on June 30, 2023. Given the sharp growth in AUM, the company had raised capital of Rs. 990 crore in FY2023 from its existing investors, i.e. Olive Vine Investment Ltd (Olive Vine, an affiliate of certain private equity funds managed by Warburg Pincus LLC - Warburg) and International Finance Corporation (IFC), as well as from a new investor, Kedaara Capital Advisors LLP (Kedaara Capital). The company has further raised Rs. 200 crore in Q1 FY2024 from Kedaara Capital. With the increase in its scale of operations, the profitability of the company has improved with a return on average managed assets (AMA) of 2.0% in FY2023 (1.4% in FY2021), which partly supports its internal capital generation. ICRA expects the company to raise equity capital to support the high-growth plans.

Apart from being unsecured, education loans have inherent risks, given their long tenures, moratorium period and exposure to economic cycles impacting employment opportunities. Moreover, the education loans are largely provided to students opting for foreign universities, which also pose geopolitical risks as reflected by the geographical concentration of loans with the United States, Canada and the UK accounting for 92% of the education loan portfolio. The portfolio seasoning remains limited, as a large share of the portfolio is accounted for by recent disbursements and will be under principal moratorium. ICRA, however, draws comfort from the asset quality track record with 90+ days past due (dpd) of 0.2% in the education loan segment as on June 30, 2023. The ability of the company to grow its portfolio while maintaining asset quality and capitalisation will be key monitorable.

Key rating drivers and their description

Credit strengths

Established presence in overseas education loan segment – Avanse has an established presence in the overseas education loan segment. Education loans account for 74% of the total AUM of Rs. 9,881 crore as on June 30, 2023, the balance being education infrastructure loans (EIL – 18% of AUM), and digital loans (8%). Avanse is the second largest non-banking financial company (NBFC) in the education loan segment with a niche expertise in overseas education loans. The AUM grew strongly with a 2-year CAGR of 67% to Rs. 8,646 crore as on March 31, 2023. The book further grew to Rs. 9,881 crore at June 30, 2023. Further, the senior management has significant experience in the financial services sector. The company has a large database of universities, courses and placement details across the world, which helps in risk assessment and appraisal. The focus remains on the potential income of the student upon completion of the course. The company sees high prepayment rates as students

prefer to foreclose the loans upon the completion of the course, which is evident in repayments + prepayments of 48% of opening AUM for FY2023 (39% in FY2022). Because of high prepayments, the share of recent disbursements in the overall AUM will be high.

Supported by credit underwriting, the company has reported good asset quality indicators with a GS3 ratio of 0.6% as of June 30, 2023 (1.3% as of March 31, 2022). The 90+dpds in the education loan segment is lower at 0.2% as on June 30, 2023 (0.4% as on March 31, 2022). The higher delinquencies are from the legacy micro, small and medium enterprises (MSME) book, the share of which has reduced to 0.5% of the AUM as on June 30, 2023, thereby limiting incremental slippages. The ability to maintain the asset quality given the strong growth in recent years, and in light of the recent geopolitical tensions with Canada, will remain monitorable.

Capitalisation supported by equity infusions – The company's capitalisation remains comfortable with a net worth of Rs. 2,378 crore and gearing of 3.2 times as on June 30, 2023. While the growth for the company has been high in the last two years, the capitalisation has been supported by the equity infusions with the recent equity infusion of Rs. 990 crore in FY2023 and Rs. 200 crore in Q1 FY2024. The company's existing investors, Warburg and IFC, infused Rs. 390 crore in FY2023. Further, the company raised Rs. 600 crore in FY2023 and Rs. 200 crore in Q1 FY2024 from a new investor, Kedaara Capital. However, considering the high growth plans, the company is expected to raise equity capital in the next 2-3 years. ICRA expects the company to maintain a managed gearing of less than 5 times.

The company's borrowing from banks and financial institutions which accounts for 55% of the overall borrowings as on June 30, 2023, remains diversified across various public and private sector banks and financial institutions. In addition, the company has borrowings in the form of NCD issuances, ECBs and sub-debt.

Earnings profile supported by moderate credit costs – The company's operating expenses improved to 2.5% of AMA in FY2023 (versus 2.8% in FY2022) with the increase in its scale of operations. Given the majority of loans extended by the company being on a floating rate, the interest spread was maintained despite the rising interest rates and borrowing costs. The net interest margins also improved in FY2023 with the equity infusion. The profitability remains supported by the low credit costs (0.6% of AMA in FY2023, albeit higher than 0.4% in FY2022, driven by write-offs in the discontinued MSME segment). The profitability for the company has been on an improving trend with the company reporting a net profit of Rs. 158 crore in FY2023 (2.0% of AMA) compared to Rs. 63 crore (1.4% of AMA) in FY2022.

Credit challenges

Exposure to unsecured education loans with longer tenures and initial moratorium period – The AUM of the company is dominated by education loans, which are largely unsecured in nature, but with a specified and monitored end use unlike personal loans. The AUM has limited seasoning with a high share of recently disbursed loans and accordingly, a sizeable share is under principal repayment moratorium. The interest payment during the moratorium period would also be nominal. Further, these loans are extended for a long tenor of 10 years, however, on behavioural basis, the actual tenor could be lower. Considering the education loans are majorly being extended for education outside India, it remains exposed to geopolitical risks. Further, the portfolio remains geographically concentrated with the USA, the UK and Canada accounting for 52%, 21% and 18%, respectively, of the education loan segment as on June 30, 2023. ICRA draws comfort in the fact that the entire EL loan book caters to postgraduate courses as on June 30, 2023. Applicants in these courses have higher prospects of gaining employment compared to undergraduates, somewhat mitigating concerns regarding their repayment ability.

Liquidity position – Adequate

As on September 30, 2023, the company held Rs. 1,198 crore of cash and liquid investments along with Rs. 1,809 crore of unutilised bank lines against total debt of Rs. 1,189 crore scheduled to mature in the next six months (i.e., up to March 2024). Avanse did not have any negative mismatches in the statement of structural liquidity as on June 30, 2023.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Pressure on the ratings could arise in case of an increase in the managed gearing beyond 5 times or a deterioration in the asset quality indicators, impacting the earnings on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidated

About the company

Avanse Financial Services Limited (Avanse) is registered as a non-deposit-taking non-banking financial company with the Reserve Bank of India, and provides education loans for students pursuing higher studies abroad and in India, and provides loans to educational institutes in India. The company has a wholly-owned subsidiary, Avanse Global Finance IFSC Private Limited, which was incorporated in January 2023, however, its operations are very limited. Olive Vine is a promoter of the company and holds a 66.97% stake as of June 30, 2023. Olive Vine is a venture capital investment firm and an affiliate of certain private equity funds managed by Warburg, a New York limited liability company. IFC is an arm of the World Bank (16.74%) and Kedaara Capital, a private equity firm (15.92%), are the other shareholders of the organisation.

Key financial indicators - Standalone

	FY2022	FY2023	Jun-23
	Audited	Audited	Unaudited
Accounting as per	IND AS	IND AS	IND AS
Net interest income	214	402	128
Profit after tax	63	158	62
Net worth	1,010	2,150	2,378
Assets under management	4,837	8,646	9,881
Total Assets	5,453	9,732	NA
PAT / Average managed assets	1.4%	2.0%	NA
PAT / Average net worth	6.5%	10.0%	11.0%
Gross Stage 3	62	47	61
Net Stage 3	25	14	18
Net Stage 3 / Net worth	2.5%	0.7%	0.8%
Capital adequacy ratio	23.0%	24.9%	24.4%
Gearing (reported; times)	3.6	3.2	3.2
Gearing (managed; times)*	3.7	3.3	3.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; * (On balance sheet borrowings + off balance sheet AUM)/Net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Nov 15, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 15, 2023	-	-	-
1 Commercial Paper	Short term	100.00	-	[ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Yet to be issued	Commercial Paper	-	-	-	100.00	[ICRA]A1+

Source: Avanse

Annexure II: List of entities for combined analysis with consolidated analysis

Company Name	Ownership	Consolidation
Avanse Global Finance IFSC Private Limited	100%	Full consolidation

Source: Avanse

Corrigendum

Updated the link for “Rating Approach-Consolidation” in the analytical approach section on page 3 on the document dated November 15, 2023.

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Branches



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