

November 29, 2024

Avanse Financial Services Limited: Rating reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure I

Rationale

The rating factors in Avanse Financial Services Limited's (Avanse) strong presence in the education loan sector, which has supported the increase in its scale of operations. The assets under management (AUM) stood at Rs. 17,062 crore as on September 30, 2024 (education loans-international stood at 80.7%). The rating also considers the extensive experience of Avanse's senior management team and the underwriting, supported by the wide database of universities and placements. This has supported the asset quality with a low gross stage 3 (GS3) level of 0.2% as on September 30, 2024 and minimal average credit costs of 0.5% (annualised) in the last three years (FY2022-FY2024) despite the Covid-19 pandemic.

Avanse's capitalisation remains comfortable with a net worth of Rs. 3,913 crore and a managed gearing of 3.46 times as on September 30, 2024. While it has grown significantly in the past three years, capitalisation was supported by the consistent track record of capital infusions. The company raised total equity Rs. 2,490 crore during FY2020-FY2024. Further, it has plans to raise Rs. 1,000-crore equity through an initial public offering (IPO) in FY2025, which will support the growth in the medium term. Driven by the increase in the scale of operations, the profitability has improved with a return on average managed assets (RoMA) of 2.9% (annualised) in H1 FY2025 (2.7% in FY2024 and 1.4% in FY2021), partly supporting internal capital generation.

Apart from being unsecured, education loans have inherent risks, given their long tenures, moratorium period and exposure to economic cycles impacting employment opportunities. Moreover, these loans are largely given to students opting for foreign universities, leading to geopolitical risks, as reflected in the geographical concentration with the United States, the United Kingdom (UK) and Canada accounting for 91.3% of Avanse's education loan portfolio as on September 30, 2024. Portfolio seasoning remains limited as recent disbursements account for a large share of the portfolio, which means the same will be under principal moratorium. Nevertheless, ICRA draws comfort from the company's asset quality track record with 90+ days past due (dpd) of 0.4% for the education loan portfolio disbursed during FY2015-FY2021. Additionally, the 90+dpd for the overseas education loan segment remained at 0.1% as on September 30, 2024. Avanse's ability to grow its portfolio while maintaining the asset quality and capitalisation profile will be a key monitorable.

Key rating drivers and their description

Credit strengths

Established presence in overseas education loan segment – Avanse is the second-largest non-banking financial company (NBFC) in the education loan segment with expertise in the overseas education loan segment. Overseas education loans accounted for 80.7% of the total AUM of Rs. 17,062 crore as on September 30, 2024 with education infrastructure loans (EILs) accounting for 15.6%. The AUM grew at a strong pace with a 3-year compound annual growth rate (CAGR) of 62.5% to Rs. 13,303 crore as on March 31, 2024. The book grew further to Rs. 17,062 crore as on September 30, 2024.

The senior management team 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 course completion.

Supported by credit underwriting, Avanse has reported good asset quality indicators with a GS3 of 0.2% as on September 30, 2024 (0.6% as on March 31, 2023). Portfolio seasoning remains limited as recent disbursements account for a large share of the portfolio and the same will be under principal moratorium. However, ICRA draws comfort from the asset quality track record with a 90+dpd of 0.4% for the education loan portfolio disbursed during FY2015-FY2021. The ability to maintain the asset quality through business cycles, given the strong growth in recent years, will remain monitorable.

Capitalisation supported by equity infusions – Avanse’s capitalisation remains comfortable with a net worth of Rs. 3,913 crore as on September 30, 2024, a reported CAR of 22.9% (Tier I ratio – 22.3%) and a managed gearing of 3.46 times. While the company has grown significantly in the past three years, capitalisation was supported by the consistent track record of capital infusions. Avanse raised total equity Rs. 2,490 crore during FY2020-FY2024. Of this, Rs. 300 crore was extended by Warburg Pincus (promoter) and International Finance Corporation (IFC) in FY2020, Rs. 390 crore via a rights issue subscribed by Warburg Pincus and IFC in FY2023, Rs. 800 crore by Kedaara Capital during FY2023 to FY2024 and Rs. 1,000 crore by Mubadala and Avendus in FY2024. The company is looking to launch an IPO in FY2025, including a fresh equity raise of Rs. 1,000 crore. This would support the growth in the medium term while ensuring a managed gearing of less than 5 times.

Avanse’s borrowing from banks and financial institutions, which accounted for ~58% of the overall borrowings as on September 30, 2024, remains diversified across various public and private sector banks and financial institutions. In addition, the company has borrowings in the form of non-convertible debenture (NCD) issuances, external commercial borrowings (ECBs) and subordinated debt.

Earnings profile supported by moderate credit costs – The company’s profitability improved in FY2024 with RoMA of 2.7% (2.0% in FY2023), supported by higher net interest margins (NIMs) and increased non-interest income. The increase in NIMs was supported by the gain on assignment/co-lending in FY2024 while credit costs remained moderate. Avanse reported a RoMA of 2.9% in H1 FY2025. With the rise in the scale of operations, the operating efficiency is likely to improve. ICRA expects the profitability to remain comfortable, supported by the decline in operating expenses and moderate credit costs.

Credit challenges

Exposure to relatively risky education loans with longer tenures and initial moratorium period – The company’s loan book is dominated by education loans, which are largely unsecured in nature, but with a specified and monitored end use unlike personal loans. The portfolio has limited seasoning with a high share of recently disbursed loans. Accordingly, a sizeable part of the portfolio is under principal repayment moratorium. While partial interest payment is done during the moratorium period, it is a nominal amount. Further, these loans are extended for a long tenor of more than 10 years, though the actual tenor, on behavioural basis, could be lower. As the education loans are mainly extended for education outside India, Avanse remains exposed to geopolitical risks. Further, the portfolio remains geographically concentrated with the US, the UK and Canada accounting for 49%, 29% and 13%, respectively, of the education loan segment as on September 30, 2024. Thus, the portfolio stays exposed to economic conditions in these geographies, which could impact the students’ employment prospects.

ICRA draws comfort from the fact that the entire education loan book catered to postgraduate courses as on September 30, 2024. Applicants in these courses have higher prospects of gaining employment compared to undergraduates, partially mitigating concerns regarding their repayment ability.

Liquidity position: Adequate

As on September 30, 2024, the company held Rs. 1,090 crore of cash and liquid investments along with Rs. 857 crore of unutilised bank lines against total debt of Rs. 2,737 crore scheduled to mature in the next six months (i.e. until March 2025).

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	Non-banking Finance Companies (NBFCs)
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. It provides education loans to students pursuing higher studies abroad and in India as well as loans to educational institutes in India. Incorporated in August 1992, its name was changed to Avanse in February 2014.

Olive Vine Investment Ltd (Olive Vine) is a promoter of the company with a 59.32% stake as on September 30, 2024. It is a venture capital investment firm and an affiliate of certain private equity funds managed by Warburg Pincus LLC, a New York limited liability company (Warburg). Warburg is a leading global growth investor. Other shareholders include Kedaara Capital, an operationally oriented private equity firm pursuing control and minority investment opportunities in India, and International Finance Corporation (IFC), an arm of the World Bank. Mubadala is a global investment company with a portfolio of \$302 billion spanning six continents, investing across multiple sectors and asset classes. It is headquartered in Abu Dhabi, with offices in London, Moscow, New York and Beijing. As on September 30, 2024, Avanse's AUM stood at Rs. 17,062 crore.

Key financial indicators

Avanse Financial Services Limited	FY2023	FY2024	H1 FY2025*
Total income	990	1,729	1,074
PAT	158	342	242
Total managed assets	10,098	15,250	18,430
Return on managed assets	2.0%	2.7%	2.9%
Managed gearing (times)	3.5	3.0	3.5
Gross stage 3	0.6%	0.4%	0.2%
CRAR	24.9%	27.5%	22.9%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

*Based on standalone financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Nov 29, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short term	100	[ICRA]A1+	15-Nov-2023	[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
INE087P14747	Commercial paper	Jun-21-2024	9.25%	Jun-20-2025	75.00	[ICRA]A1+
Not yet placed[^]	Commercial paper	-	-	-	25.00	[ICRA]A1+

Source: Avanse; [^] Yet to be issued

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

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About ICRA Limited:

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Branches



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