

# Business Standard

## As banks shy away from education loans, NBFCs see a lucrative opportunity

**PSBs still give 95% of these but much of this is under priority sector lending orders, with high NPAs; the small ones are nimbler and growing much faster in this**

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While public sector banks are facing high accretion of non-performing assets (NPAs) in the education loans, leading to a marked slowdown in growth, non-banking finance companies (NBFC) are expanding their education loan books.

Notably, over the last few years, several standalone education loan companies have come-up, and many of them are experimenting with new products too. Further, by adopting a student-led approach, which includes an overall academic screening of students, NBFCs are redefining the norms of education loan lending.

Data from Reserve Bank of India shows, as on February 2018, total education loan outstanding stood at Rs 705 billion, against Rs 720 billion in February 2017, a fall of 2 per cent. At present, about 95 per cent of education loans are disbursed by public sector banks, according to a report by rating agency Care.

NPAs in education loan of public sector banks as on March, 2017 was Rs 51.91 billion, which comes to 7.67 per cent of the outstanding education loan



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of Rs 677 billion, according to Parliament document.

“The portfolio of the NBFC sector within the education loan segment is lower as compared with the banks. However, there has been emergence of specialised NBFCs in this segment. The overall portfolio of the NBFCs in this segment is around Rs 5,000 crore as on March 31, 2017,” according to a Care report. The education loan Book of HDFC Credila has grown with a CAGR of over 40 per cent during the last five years up to December 2017. Its gross NPA has remained low at 0.1 per cent, according to said Ajay Bohora, the CO-Founder & MD of HDFC Credila.

Recently, Avanse Financial Services, an associate education loan firm of Dewan Housing Finance Corporation Limited (DHFL), closed a securitisation of education loans of about Rs 1.08 billion. The company sold the portfolio to a private sector bank. Under the deal, while the education portfolio passed on to the books of the bank, the monitoring of the loan will be done by Avanse. Notably, Avanse has been growing at a CAGR of over 200 per cent over the last five years, with gross NPA at 0.10 per cent.

“We have adopted a student-oriented approach in education loan, while public sector banks in general have been sanctioning loans on the basis of parent's credentials. We look at student's scorecard at various levels, their graduation marks, if they are opting for overseas studies, their GRE score, and then evaluate their probability of getting a job after completing the education. Our gross NPAs are 0.09 per cent, and about 60 per cent of our loans are secured. Our AUM is about Rs 220 billion, and we have been recording a CAGR of 207 per cent over the last 5 years,” said Amit Gaiinda, Avanse Financial Services.

Other NBFCs are also exploring options of securitisation of education loans, as commercial banks remain shy of direct lending. By purchasing loan, a secured portfolio of NBFCs, banks can avert the risk of default.

Eduvaz Financing, a two-year-old NBFC, offers short-term loans for skills-based, vocational courses, ranging from Rs 5,000 to Rs 100,000 and uses technology and research to build a network between recruiters, training institutions and students. Given that the loan sizes are small, the loan book for companies like Eduvanz does not carry the same risk characteristics that are attached to loans for higher education in India or abroad, offered by banks or legacy NBFCs.

“In my opinion, when it comes to securitisation, whoever is taking that risk needs to do some digging and track the individual loans, to avoid over-leveraging or the risk of rising NPAs” says Raheel Shah, founder and CMO of Eduvanz Financing.

Technology enables Eduvanz to track the aspirations of their students, their teaching institutions' quality and recruiters needs, says Shah, which is why the new NBFCs have taken some of market share away from banks in such a short span of time.

“Globally as well as in India, securitization has been a part of the funding mix for lenders. HDFC Credila has not done any securitisation deal so far. However, we continue to explore that option as a part of our funding mix as it opens up an additional avenue for funding,” said Ajay Bohora, the CO-Founder & MD of HDFC Credila.

In the recent past, there public sector banks — Bank of India, Indian Bank and State Bank of India — have sold their NPAs (Non-Performing Assets) education loans to private Asset Reconstruction Companies (ARCs), totalling about Rs 10.30 billion, according to a written reply in Lok Sabha last months. Traditionally, ARCs have mostly been a preferred choice of banks to get rid of sticky corporate loans.

Another education loan company, Indian School Finance Company (IFSC), has been growing at 17 per cent CAGR, with gross NPA of 1.30 per cent. Deviating from general practice of offering loans to regular full time courses, the company has been offering loans for vocational courses, apart from loans for setting up education institutions, said Neeraj Sharma, the CEO & MD of IFSC.

While for NBFCs, the portfolio is largely backed by collateral, for public sector banks, a large amount of portfolio falls under priority sector lending (education loan less than Rs 1 million), one of the reasons for high defaults. Also, there is no security and margin requirement for education loans up to Rs 0.4 million.

Education loans under the priority sector lending accounts for 89 per cent of education loan lending by public sector banks. In contrast, on account of higher ticket size of loans, around 52 per cent of the portfolio of NBFCs is secured in nature, says Care report.