Shadow lenders see loan demand from edtech firms dry up

The reopening of schools and falling investor interest have dampened spirits in the sector **(Photo: Mint)**

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The reopening of schools and falling investor interest have dampened spirits in edtech sector, even as some non-banking financial companies (NBFCs) avoid the segment due to perceptions of higher risk

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cooling off, with startups seeking fewer student loans from non-bank lenders who are, in turn, turning lukewarm to the sector.

Edtech startups that are providing K12 lessons for school students typically tie up with non-bank lenders to provide interest-free loans for students. The reopenin of schools and falling investor interest have dampened spirits in the sector, even a some non-banking financial companies (NBFCs) avoid the segment due to perceptions of higher risk. “There is a drastic drop in queries from K12 online edtech companies, which is driven by a combination of a return to offline classes and decrease in investor interest," said Ankit Mehra, co-founder and chief executive officer at GyanDhan, an NBFC.

NBFCs are themselves concerned over the margin squeeze at many edtech startups. Rising inflation and interest rates, as well as global factors such as China’s lockdown and the Russia-Ukraine war, have pushed many investors to pause or reassess their investment positions. Mint reported last month that the startup sector overall is facing a crunch, and at least 5,000 employees are expected to be laid off. Within the startup sector, edtech firms have seen major layoffs. Recently, large entities such as Unacademy, Vedantu and WhiteHat Jr have either retrenched staff or seen mass resignations of employees.

The pandemic outbreak in March 2020 boosted India's edtech startups, complementing the curriculum for K-12—kindergarten to class 12. They would approach schools and parents, offering both online and offline courses to supplement regular schooling. But now, attracting big customer chunks through school tie-ups has become costlier, a shift that NBFCs catering to the sector have noticed.

"In the last couple of months, new institute inquiry from the K-12 segment is almost nil, or at max, one per month. Earlier, it used to be five to seven in a month. Our existing K-12 partners are also reporting low business volume," Mehra said.

Edtech companies tie up with NBFCs for quick and interest-free loans for students. While disbursing the loan directly to the edtech company, the NBFC retains about 5% of the loan, thereby making money although the borrower does not pay any interest. That said, edtech firms, especially the online K12 providers, are now focusing on creating more profitable and self-sustained business models.

a fintech NBFC.

Industry experts said this is a relatively new sector, and for NBFCs, edtech loans are still a small part of their overall portfolio. Non-banks are required to have a significant amount of digital infrastructure ready to be able to get into loan arrangements with edtech companies. Many education loans and small-ticket personal loan providers work with edtech companies.

"Lending to domestic edtech is a high-yield and short-term loan business; the book is relatively small and runs down at a faster pace as compared to other portfolios," said Sanjay Agarwal, senior director of CareEdge Ratings.