

Canada Stir Unlikely to Hit Specialised Education Loan NBFCs Portfolio

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Synopsis

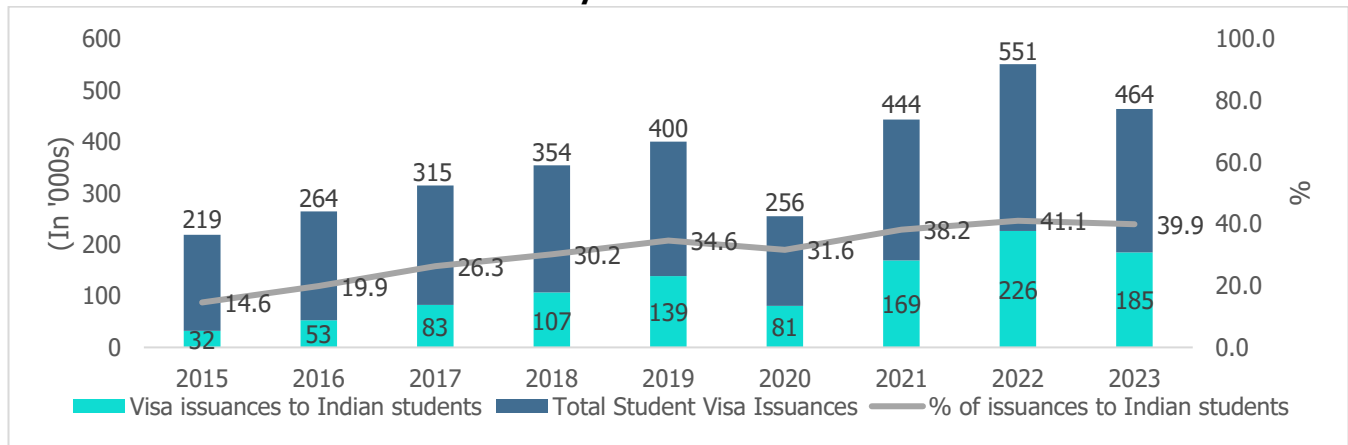
- As of December 31, 2022, Indian students comprise 39.5% of the total international student population in Canada. Notably, in terms of geography, Canada is the second-largest retail education loan portfolio outstanding for specialised education loan Non-Banking Financial Companies (NBFCs), with the United States being the only country ahead. The exposure to the Canadian market has witnessed a robust compounded annual growth rate of 77.5% from March 31, 2021, to June 30, 2023.
- The Assets Under Management (AUM) of retail education loans provided by CARE Ratings-rated specialised education loan NBFCs to students pursuing education in Canada exhibited significant growth, escalating from Rs. 1,426 crore as of March 31, 2021, to Rs. 5,183 crore as of June 30, 2023, constituting 19.8% of their total AUM as of June 30, 2023.
- In the recent past, there has been escalating diplomatic tensions between India and Canada. This has resulted in India taking certain measures including suspending visa services for Canadian nationals. Given that Indian students account for 40% of international student enrolments in Canada and contribute approximately CAD 10 billion annually to the Canadian education sector, CARE Ratings does not foresee any adverse actions that would significantly impact this segment.
- CARE Ratings anticipates that the growth momentum for these NBFCs will persist, as students are more likely to seek alternative destinations for their education rather than postpone their academic pursuits.

Canada is the Second Largest Destination among Indian Students for Overseas Education

Fuelled by the strong demand for overseas education among Indian students, specialised NBFCs have effectively established a niche in the overseas education loan segment. Among the preferred destinations for Indian students, countries such as the USA, Canada, the UK, Australia, and New Zealand stand out prominently. This preference is evident in the growing number of visa issuances to Indian students seeking to study in these countries.

Currently, Canada stands as the second-largest market in terms of regional exposure for education loans among specialised education loan NBFCs, second only to the USA. The impetus for this growth is primarily attributed to the robust demand for education in Canada, which is further substantiated by the increasing number of student visa issuances to Indian students. The trend of Canada's student visa issuances to Indian students has been on the rise since 2015. Visa issuances to Indian students constituted 39.9% of the total student visa issuances to international students for CY2023 (till August 31, 2023).

Chart 1: Trend in Student Visa Issuances by Canada to Indian Students



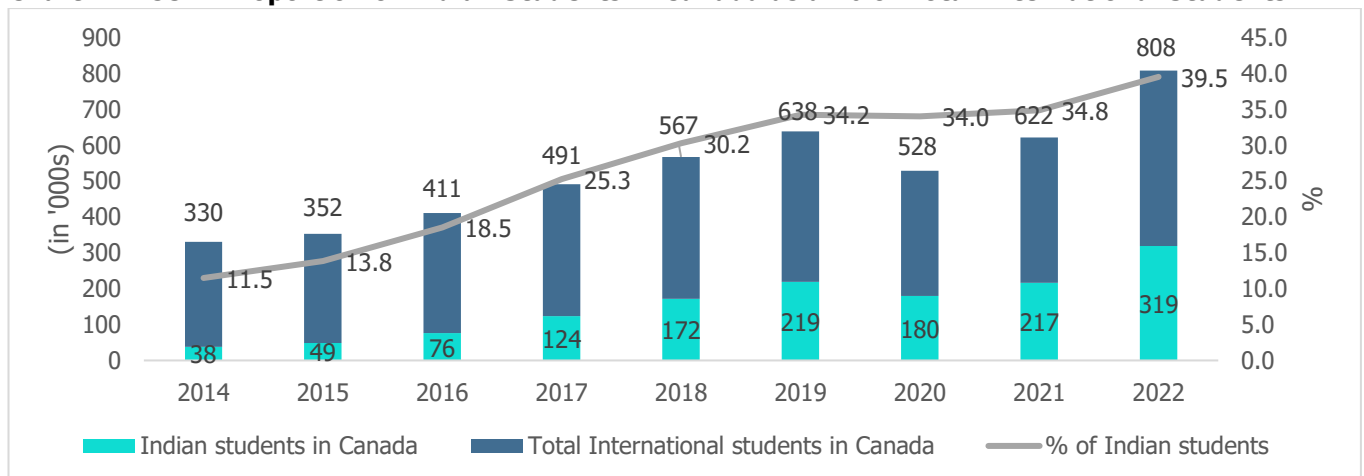
Source: Canada Immigration Statistics; 2023: Till August 31, 2023.

There has been a significant surge in the demand for pursuing overseas education among Indian students. They are enticed by the wider variety of courses, research options, and skill-based training opportunities available in comparison to the domestic education system. Moreover, the allure of enhanced post-study career prospects further motivates Indian students to seek education abroad.

In addition to the rising interest among Indian students, the Canadian government has proactively introduced various initiatives to attract foreign students. Notably, in 2022, Canada launched the Student Direct Stream (SDS), a fast-track visa processing program designed for students hailing from India, China, the Philippines, and Vietnam. Furthermore, the Canadian government unveiled the Post-Graduation Work Permit (PGWP) Extension program in April 2023, allowing international students to extend their stay in Canada for up to three years after graduation. This program provides them with ample time to gain valuable work experience in Canada and potentially secure a permanent job.

The increase in student visa issuances to Indian students is also partially attributed to decreased demand from Chinese students. This can be attributed to the progress and development of China's domestic higher education system, which has reduced the appeal of overseas education among Chinese students.

Chart 2: Rise in Proportion of Indian Students in Canada as a % of Total International Students



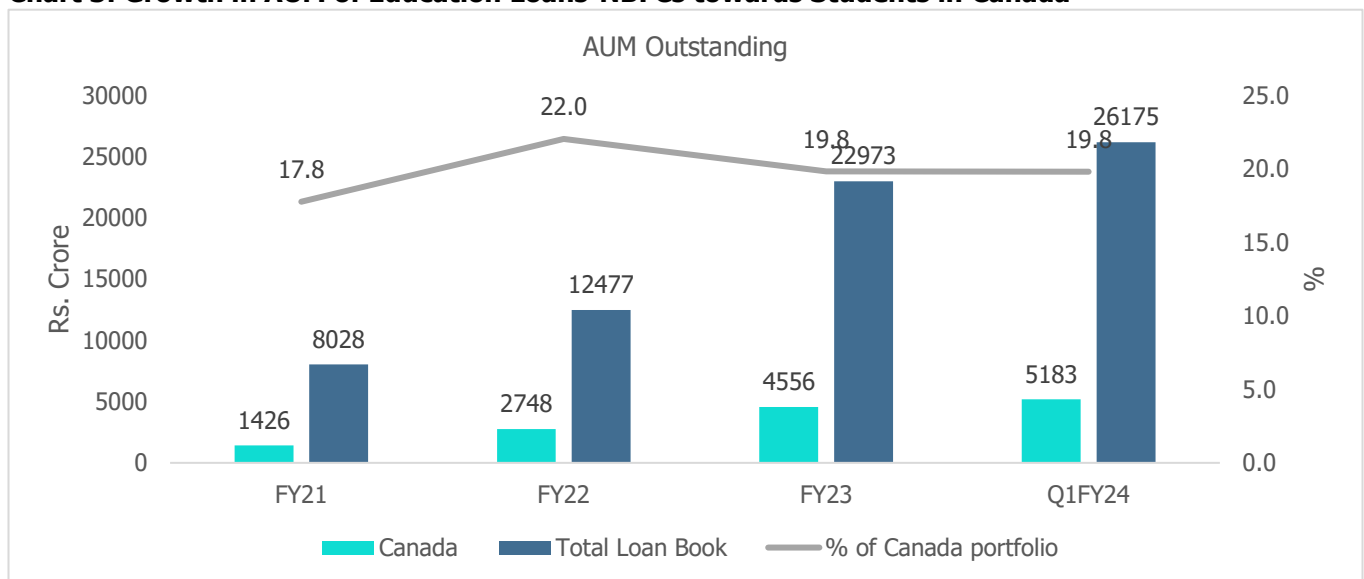
Source: Immigration, Refugees and Citizenship Canada (IRCC)

Of 319,130 Indian students in Canada as on December 31, 2022, around 209,930 were pursuing undergraduate degrees, 80,270 were pursuing post graduate degrees, and 28,930 were pursuing diplomas or certificate courses.

AUM Growth of Specialised NBFCs towards Canada

In line with the prevailing trend of academic enrollments, the aggregate AUM of the retail education loan portfolio of CARE Ratings-rated NBFCs for students pursuing education in Canada, demonstrated a remarkable Compounded Annual Growth Rate (CAGR) of 77.5% from March 31, 2021, to June 30, 2023. The outstanding AUM reached Rs. 5,183 crore, significantly up from its standing at Rs. 1,426 crore on March 31, 2021. This amount constitutes 19.8% of the overall AUM of NBFCs as of June 30, 2023. It may be noted that specialised education loan NBFCs predominantly finance postgraduate courses which have a typical academic duration of two years.

Chart 3: Growth in AUM of Education Loans-NBFCs towards Students in Canada



Source: Company (CARE Ratings Rated Entities forming over 4/5 of outstanding education loan AUM of NBFCs)

Indian Diaspora a Major Contributor to Canadian Economy; Rising Tensions Pose Uncertainties

International students make a substantial and positive contribution to the Canadian economy through various means. This includes their contribution through tuition fees for Canadian colleges and universities, as well as covering living expenses such as food, accommodation, and transportation. The financial impact of international students on Canada's economy is noteworthy, as tuition fees for international students typically range from 2 to 3 times that of domestic students. According to the Immigration, Refugees, and Citizenship Canada (IRCC) report, international students contributed a substantial CAD 22.3 billion to the Canadian economy in 2022, with Indian students estimated to have contributed approximately CAD 10.2 billion. Moreover, Canada's economy benefits from the labor provided by international students to address labor shortages in critical sectors. In 2022, international students filled approximately 370,000 jobs in Canada, with Indian students accounting for over 170,000 of these positions.

It is worth noting that Canada-India relations have faced challenges, primarily stemming from Canadian Prime Minister Justin Trudeau's allegation that the Indian government was involved in the assassination of a Sikh independence activist on Canadian soil. In response, India took measures such as expelling a representative of Canadian Intelligence in India and suspending visa services for Canadian nationals. However, it is important to

highlight that Canada has not reciprocated these actions, and visa services continue to operate normally with approvals being processed as usual.

No Immediate Impact on Asset Quality Expected

NBFCs have developed strong domain expertise, providing tailor-made solutions and competitive products with an efficient domain-specific technology platform for loan processing and dynamic credit underwriting factoring in various parameters like country-wise, course category, course discipline, GRE score band, average monthly salary levels for a particular course, etc. This comprehensive approach equips NBFCs to gauge the income potential and demand in the job market for both their current and prospective students.

Furthermore, the majority of financing extended by NBFCs (approximately 98%) is towards postgraduate courses, primarily in the fields of Science, Technology, Engineering, and Management (STEM), which are known for their high employment opportunities. Despite the unsecured nature of a significant portion of these loans, NBFCs have managed to maintain a commendable level of asset quality. As of June 30, 2023, the Days Past Due (DPD) exceeding 90 days for the Canada portfolio remained sound, standing at less than 0.10% for retail education loans. However, it's worth noting that a substantial portion of outstanding loans lacks seasoning due to the rapid loan book expansion witnessed post-FY21.

In addition, according to a survey conducted by CARE Ratings, there have been no discernible impacts on the ground so far in terms of either student or work visa issuances.

Conclusion

NBFCs have experienced consistent growth in the overseas education segment, driven by a strong and sustained demand for international education among Indian students. This trend is poised to persist, as indicated by the robust volume of loan applications witnessed during H1FY24 among NBFCs and the continued high number of student visa issuances for Indian students. In the short term, there may be some impact on the incremental volume of applications to Canada due to the ongoing tensions in the bilateral relations between India and Canada. However, given that Indian students represent 40% of international students in Canadian universities and significantly contribute to their tuition fees, it is expected that these issues will be resolved. Given that the Indian students have alternative destinations for their education, the AUM growth of education loan NBFCs is unlikely to be significantly affected.

In the near term, the asset quality of the Canada portfolio will largely hinge on any government actions taken against Indian students that could lead to employment challenges. Considering that Indian students studying in Canada contribute nearly CAD10 billion annually and with this figure expected to increase over the long term, CARE Ratings does not anticipate any adverse actions by the Canadian government. Consequently, under the current circumstances, CARE Ratings does not foresee any significant impact on asset quality.

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