

Inside the private school boom: How NBFCs can power affordable education

Explore how NBFCs can transform affordable education in India's growing private school sector amid evolving economic challenges.

Published – October 24, 2025 09:16 pm IST

BHASKAR BASAVA



Many private schools that are often overlooked by institutional lenders that demand long credit histories suffered major setbacks during the pandemic, as fee collections came to a halt amid widespread financial distress among parents. | iStock/Getty Images | Photo Credit: stockimagesbank

As India's education landscape evolves, one clear trend stands out, the number of government schools is shrinking while private schools continue to grow. According to the Unified District Information System for Education Plus (UDISE+) 2024 data, India has about 24 crore school-going children, and nearly 40% of them attend private

schools. This marks a major shift from 2010, when only 15% of students were enrolled in private institutions, and 85% were enrolled in government.

Data from the Ministry of Education further show that the number of private schools has increased by roughly 15% over the past decade (2014–2024), reaching around 3.5 lakh out of 14 lakh schools across the country. In contrast, government schools have seen an 8% decline in their school numbers. However, the data further suggests that private schools only recorded a temporary decline of about 17,000 schools, implying closures largely during the phases of COVID-19 years. Private schools have shown 2% growth in 2024, indicating a recovery.

As educationists point out, within this expanding private sector, low-cost or affordable private schools, which are largely concentrated in Tier-2 and Tier-3 cities, have become the preferred choice for middle-class and lower-income families seeking English-medium instruction and “better perceived quality.” Yet, many of these schools, often overlooked by institutional lenders that demand long credit histories, suffered major setbacks during the pandemic, as fee collections came to a halt amid widespread financial distress among parents.

With limited funds for expansion, coupled with the financial strain of the pandemic and rising costs in the post-COVID period, many affordable private schools have been struggling to stay afloat. Non-Banking Financial Companies (NBFCs) are stepping in to fill this gap by financing affordable private schools for their expansion and infrastructure needs.

The concept of affordable schools

Affordable schools, says Prof. Arun C. Mehta, former Head of the Department of Educational Management Information System at the National Institute of Educational Planning and Administration (NIEPA), are driven by the middle class’s growing aspirations for English-medium education and the perception of better quality in private institutions. “It is also not that all government-managed schools are bad and all private unaided schools are good,” adds Mr. Mehta who has been running a platform seeking Education For All, advancing universal school education in India since 1999.

Mr. Mehta says that affordable private schools face significant challenges in accessing institutional credit, unlike those catering to upper-middle-class or elite segments,

which can more easily secure loans due to established credit histories. As a result, many affordable private schools often rely on informal lending with higher interest rates.

Mr. Mehta also adds, that this gap has profound policy implications. The National Education Policy (NEP) 2020 envisions “equitable and inclusive” education and aims to achieve a 100% Gross Enrolment Ratio (GER) by 2030, emphasising access for underserved communities (SC, ST & Minority communities) integration of technology, and holistic development. Yet, without access to capital, affordable private schools cannot scale up to help meet these goals, and some NBFCs are stepping in to fill this gap.

The Varthana model

A Southern California native, Steve Hardgrave, along with his former colleague Brajesh Mishra, co-founded Varthana Finance in 2013. Varthana is a Bengaluru-based NBFC that provides financial support to affordable private schools.

Mr. Hardgrave said the company began modestly, with about ₹7 crore raised from friends and family, before disbursing its first loan in January 2013. “Since then, Varthana has provided loans to over 13,000 schools across 15 States, disbursing more than ₹4,200 crore, with an average loan size of around ₹30 lakh per school,” he said.

Steve Hardgrave, co-founder of Varthana that provides financial support to affordable private schools

In an interaction with *The Hindu*, Mr. Hardgrave explained that around 90% of India's private schools fall under the affordable category, those charging less than ₹50,000 in annual fees, while the rest cater to the upper-middle-class and elite segments. "Most of the schools Varthana has funded are located in Tier-2 and Tier-3 cities, which account for about 90% of our portfolio," he noted.

Reflecting on the origins of the idea, Mr. Hardgrave said his exposure to education models in developing countries had inspired the company's creation. "In my preliminary research, I discovered an embedded layer of affordable private schools in India, and similar models in Africa, Latin America, and Southeast Asia, where local

youth started small schools to fill gaps left by government institutions, offering education at very accessible prices,” he said.

“At first, I was skeptical because private schools in the U.S. are mostly for the elite,” Mr. Hardgrave recalled. “But when I asked microfinance clients where they sent their children, many mentioned these small private schools. That convinced me the model was real and widespread.”

According to Mr. Hardgrave, many school owners began with a daycare or creche, gradually expanding to kindergarten and adding classrooms using family land and savings. “A recurring constraint was access to institutional finance. Without loans, they couldn’t expand infrastructure, and growth was painfully slow,” he said.

Mr. Hardgrave shared that, “We lend to schools that have been operating for at least two to three years, have several classes and 200-plus students, and whose basic operating costs are covered,” he said. “Our loans primarily fund infrastructure expansion, like additional classrooms, floors, furniture, computer labs, and CCTV, rather than working capital. The idea is to help established schools scale and serve more students.”

Covid shock and recovery

“We’ve been able to help some of these schools,” Mr. Hardgrave said, adding that Varthana is a typical finance company, starting in Karnataka and expanding across a dozen of states while raising successive rounds of equity and debt. “Things were moving steadily, but COVID was the biggest shock,” he said.

“Schools were closed for nearly two years. Many low-fee schools couldn’t shift to remote learning and stopped collecting fees. About half of our portfolio came under stress,” Mr. Hardgrave said. “With patience from investors and lenders, we met our obligations and navigated the recovery. Barring a dozen schools, most have since reopened and returned to stable operations.”

Over time, Mr. Hardgrave observed, banks and other lenders have grown more comfortable lending to the education sector. “Today, multiple banks and several finance companies lend into this segment, typically focusing on larger, better-run schools. Some NBFCs treat school lending as part of their SME or loan-against-property portfolios,” he said. “Coverage, however, still thins in remote areas, leaving smaller schools underserved.”

Discussing current challenges, Mr. Hardgrave said the company's biggest issue remains the cost of capital. "Post-COVID, our credit rating and borrowing costs were hurt, and competition has increased," he said. "If we can lower our cost of capital, we can offer cheaper loans and scale faster. We plan to raise a large capital round in FY27 to address this."

On India's broader education landscape, Mr. Hardgrave noted that the country's youthful population has created a huge demand for education that the public system struggles to meet. "As incomes and aspirations have risen, many families prioritise education and are willing to pay what they can for better quality," he said.

"That has driven the growth of private schools, particularly affordable ones." He added that government schools continue to play a vital role, especially in remote areas where private models are unsustainable. "Private schools relieve some burden on the public system, but it's essential that the government continues improving public education quality for families who cannot afford private options," Mr. Hardgrave said.

Published - October 24, 2025 09:16 pm IST