

September 13, 2024

Aye Finance (P) Ltd.: Ratings confirmed as final for PTCs backed by unsecured business loan receivables issued by AJANTA 01 TRUST 2024

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
AJANTA 01 TRUST 2024	PTC Series A1	212.47	[ICRA]AA(SO); provisional rating confirmed as final
	Series B PTCs	17.29	[ICRA]A+(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In July 2024, ICRA had assigned a provisional rating to the Pass-Through Certificates (PTCs) issued by AJANTA 01 TRUST 2024 under a securitisation transaction originated by Aye Finance (P) Ltd. (AFPL/Originator). The PTCs are backed by a pool of unsecured business loan receivables originated by AFPL with an aggregate principal outstanding of Rs. 247.05 crore (pool receivables of Rs. 313.12 crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

Pool performance summary

Parameter	AJANTA 01 TRUST 2024
Months post securitisation	2
Pool amortisation	0.12%
PTC Series A1 amortisation	4.65%
Series B PTCs amortisation	0.00%
Cumulative prepayment rate	2.59%
Cumulative collection efficiency	98.57%
Loss cum 0+ dpd	2.14%
Loss cum 30+ dpd	0.69%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Transaction Structure

As per the transaction structure, the tenure of the pool shall be divided into two periods – replenishment period and amortisation period.

Replenishment period

The replenishment period will be for 24 months from the transaction commencement date. During this period, PTC Series A1 investors will receive only the promised interest payouts on a monthly basis and the balance pool collections will be used by the trust to purchase fresh loan receivables as per the selection criteria such that the pool principal remains unchanged. Further, as per the transaction structure, residual pool collections will be used to redeem the PTC Series A1, till the advance rate is more than or equal to 70%. The advance rate is defined as outstanding amount of PTC Series A1 divided by sum of the principal outstanding value of all underlying loans (that are up to 30 days past due (dpd)) and cash collateral (CC). This will lead to buildup of subordination for the rated instruments.

The transaction also entails certain trigger events for early amortisation. A breach of any of these trigger events would lead to the end of the replenishment period and the start of the amortisation period. If a trigger event occurs at any time during the replenishment period, then the tenure of the PTCs shall be reduced and be co-terminus with the remaining tenure of the pool of receivables assigned to the trust.

Amortisation period

Post the replenishment period, the residual pool collections will be utilised to repay PTC Series A1. The monthly cash flow schedule will comprise of the promised interest payout for PTC Series A1. The principal for PTC Series A1 is expected to be paid on a monthly basis (100% of the pool principal billed) but is promised on the final maturity date. Any surplus excess interest spread (EIS), after meeting the promised and expected payouts, will either be used to prepay PTC Series A1 (if advance rate as defined earlier is more than or equal to 50%) or flow back to the Originator on a monthly basis. Any prepayment in the pool would be used for the prepayment of Series A1 PTC principal. Post the payment of PTC Series A1, all pool collections will be used to repay Series B PTCs. The principal for Series B PTCs is promised on the final maturity date.

The credit enhancement available in the structure is in the form of (i) a CC of 3.00% of the initial pool principal, amounting to Rs. 7.41 crore, to be provided by the Originator, (ii) principal subordination of 14.00% of the initial pool principal for PTC Series A1 and 7.00% of the initial pool principal for Series B PTCs, and (iii) the entire EIS in the structure. However, the principal subordination would build up during the replenishment period basis the transaction structure.

AFPL will initially be the Servicer for the transaction. However, Northern Arc Capital Limited has been identified to take over servicing upon occurrence of certain pre-defined events.

Key eligibility criteria for the receivables

The eligibility criteria shall be met on commencement of the transaction and also at each replenishment event for all the new assets being added as well as for the updated pool (as applicable)

The following key eligibility criteria will have to be met:

Loans are not overdue;

Loans should not have been overdue more than 30 DPD on any date since origination;

Concentration to any state in the underlying pool to not exceed 15%; However, for the states of UP, Bihar and Rajasthan, the limit shall be 20% and 5% for states of Gujarat, Delhi and Jammu;

Weighted average Annualised Rate of Interest (without any fees) on the underlying loans in the pool to be minimum 24%;

Weighted average net seasoning is at least 4 months;

Trigger events for early amortisation

The following key early amortisation triggers which will lead to end of amortisation period:

The Originator does not have sufficient loans (which meet the Eligibility Criteria)

Cumulative default rate exceeds 6% in the first 12 months and exceeds 8% thereafter; cumulative default rate is defined as principal of loans in 30 dpd or more divided by aggregate pool principal

PTC outstanding is more than 87% of principal outstanding value of all underlying loans in the outstanding pool that are current

CC has been utilised

Downward revision in the Servicer's rating below BBB by any of the existing rating agencies

Downward revision in the rating assigned to the PTC Series A1

Any default on its debt obligations by the Originator / Servicer or initiation of any insolvency proceedings by any lender of the Originator/Servicer or filing of insolvency application by any regulator of the Originator/Servicer

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement – The initial pool is granular and basis the eligibility criteria the follow-on pools are also expected to be granular. The initial pool has no obligor exceeding Rs. 3.5 crore (~1.4% of the pool principal), thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts. Basis the advance rate criteria the EIS would be used to repay PTC Series A1 during the replenishing period which would lead to increasing the subordination for PTC Series A1 and Series B PTCs to 29.5% and 22.5% respectively (assuming 100% collection efficiency).

No overdue contracts in the pool – The initial pool has no overdue contracts as on pool cut-off date. Further any follow-on pool would also not include any overdue contracts on date of assignment to trust which is a credit positive.

Credit challenges

Moderate pool selection criteria – A potential concern pertaining to a replenishing structure is the uncertainty regarding the exact composition of the additional receivables. While the current transaction has a specified eligibility criteria the follow-on pools may have a lower seasoning, lower interest rate contracts, contracts from weaker geographies and moderate share of lower bureau score contracts.

Risks associated with lending business – The performance of both the initial and the follow-on pools would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. Both the initial and the follow-on pools are exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. However, since the pool in the current transaction would be revised during the replenishment period, the characteristics of the pool would change unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at a potential loss for the follow-on pools. The resulting collections from the current pool and follow on pools, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current transaction, ICRA has estimated the shortfall in the principal of the pool crystallised at the end of replenishment period at ~6.25% at end of its tenure with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3% to 12% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Details of key counterparties

The key counterparties in the rated transaction is as follows:

Transaction Name	AJANTA 01 TRUST 2024
Originator	AFPL
Servicer	AFPL
Trustee	Catalyst Trusteeship Limited
CC holding bank	HDFC Bank Limited
Collection and payout account Bank	ICICI Bank Limited

Liquidity position:

The liquidity for PTC Series A1 is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~6.50 times the estimated loss in the pool.

The liquidity for Series B PTCs is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~5.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Since the principal amortisation would begin on the crystallisation of the final pool, the ratings are unlikely to be upgraded till the final pool is crystallised. The ratings could be upgraded basis the healthy collections observed in the final crystallised pool, leading to the build-up of the credit enhancement cover over the rated PTCs.

Negative factors – The ratings could be downgraded on the occurrence of a trigger event, non-adherence to the key transaction terms and deterioration in the performance of the follow-on pools such that the delinquencies during the amortisation period are higher than expected. Weakening in the credit profile of the servicer (AFPL) could also exert pressure on the ratings.

Analytical approach

The rating action is based on the trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the Originator

Aye Finance (P) Ltd. is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking non-banking financial company (ND-NBFC). It provides loans to micro-enterprises in semi-urban areas with an annual turnover of Rs. 10 lakh-1 crore. The company commenced operations in FY2014 and is promoted by Mr. Sanjay Sharma and Mr. Vikram Jetley, who have experience in retail lending. Aye Finance is backed by strong private equity investors – Capital G (Google Capital), Falcon Edge Capital, Elevation Capital, A91 Partners, LGT Impact, MAS Invest and others.

Key financial indicators (standalone)

	FY2022	FY2023	FY2024
	Audited	Audited	Audited
Total income	441.4	636.8	1,071.8
Profit after tax	-45.7	53.8	160.7
Total managed assets	2,370.8	3,305.6	4,472.8
Gross stage 3	3.3%	2.5%	3.2%
CRAR	36.0%	31.1%	32.8%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Trust Name	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Instrument	Initial Amount Rated (Rs. crore)	Current Amount Rated (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					September 13, 2024	July 02, 2024			
1	AJANTA 01 TRUST 2024	PTC Series A1	212.47	212.47	[ICRA]AA(SO)	Provisional [ICRA]AA(SO)	-	-	-
		Series B PTCs	17.29	17.29	[ICRA]A+(SO)	Provisional [ICRA]A+(SO)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
Series B PTCs	Moderately Complex

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

Trust Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate (p.a.p.m.)	Maturity Date	Amount Rated (Rs. crore)	Current Rating
AJANTA 01 TRUST 2024	PTC Series A1	June 28, 2024	10.60%	December 20, 2028	212.47	[ICRA]AA(SO)
	Series B PTCs		0.01%		17.29	[ICRA]A+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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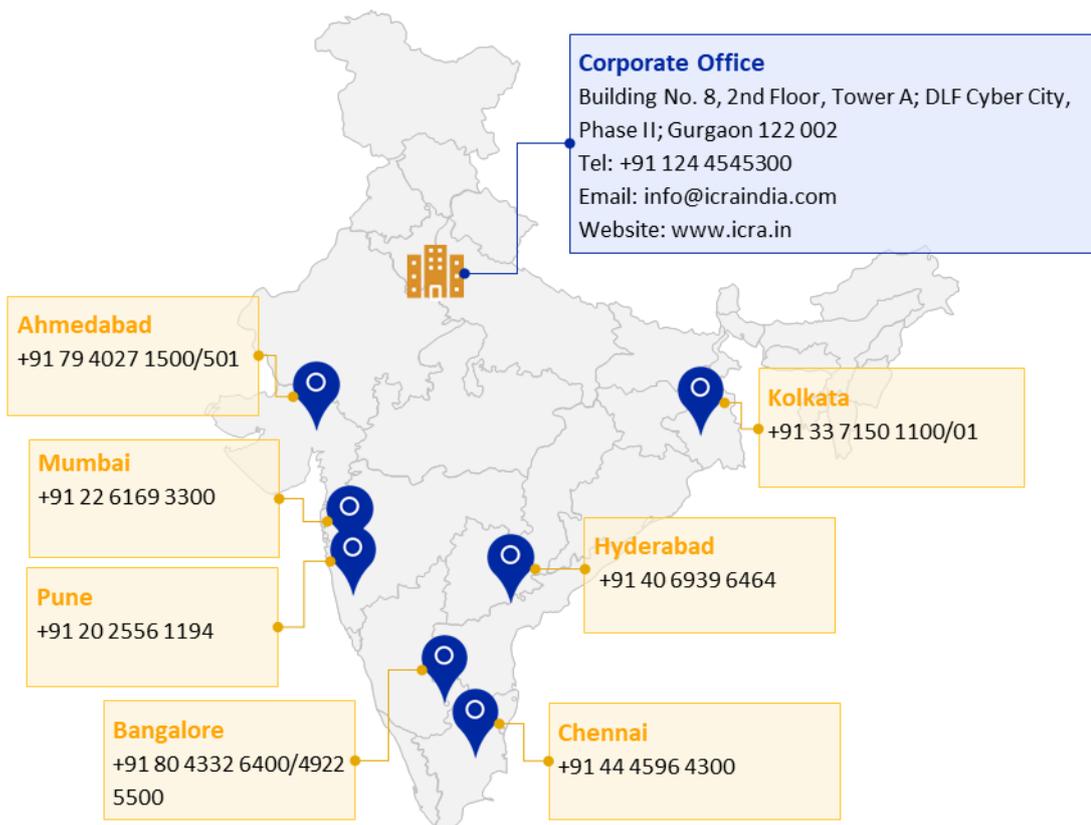
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