

June 06, 2025

Aye Finance Limited (erstwhile Aye Finance (P) Ltd.): Provisional [ICRA]AA+(SO) assigned to PTC Series A1 and Provisional [ICRA]A+(SO) assigned to Equity Tranche PTCs issued by HITHIKA 01 TRUST 2025, backed by a pool of unsecured business loans

Summary of rating action

| Trust Name | Instrument* | Rated Amount (Rs. crore) | Rating Action |
|-----------------------|---------------------|--------------------------|-------------------------------------|
| HITHIKA 01 TRUST 2025 | PTC Series A1 | 281.49 | Provisional [ICRA]AA+(SO); assigned |
| | Equity Tranche PTCs | 23.18 | Provisional [ICRA]A+(SO); assigned |

*Instrument details are provided in Annexure I

| | |
|--|---|
| Rating in the absence of pending actions/documents | No ratings would have been assigned as it would not be meaningful |
|--|---|

Rationale

The pass-through certificates (PTCs) are backed by a pool of unsecured business loan receivables originated by Aye Finance Limited (erstwhile Aye Finance (P) Ltd.) (AFL/Originator; rated [ICRA]A(Stable)) with an aggregate principal outstanding of Rs. 331.16 crore (pool receivables of Rs. 419.80 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts along with the eligibility criteria for follow-on pools, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional ratings are subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

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 12 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 overcollateral builds up to 18% of the initial pool principal from 8% of the initial pool principal at time of transaction commencement date. 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 (till overcollateral

increases to 18% of the initial pool principal) 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 Equity Tranche PTCs. The principal for Equity Tranche 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. 9.93 crore, to be provided by the Originator, (ii) principal subordination of 15.00% of the initial pool principal for PTC Series A1 and 8.00% of the initial pool principal for Equity Tranche PTCs, and (iii) the entire EIS in the structure. However, the principal subordination would build up during the replenishment period basis the transaction structure.

AFL will initially be the Servicer for the transaction.

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:

- All loans should be hypothecation loans.
- The original loan amount should not be more than Rs. 400,000.
- One loan per obligor.
- Annualized Rate of interest (without any fees) on the loans not to exceed 35% and should not be less than 15%.
- Loans should not have been overdue for more than 30 days on any date since their origin.
- All loans are to be current or 0 DPD at the respective cutoff dates.
- Bureau score of the obligors not to be lower than [600].
- Concentration of any state should not exceed 25%, and top 3 state exposure not greater than 50% as of the Cut-off Dates.
- Weighted average bureau score of the obligors not to be lower than [685]; obligors with Equifax score lower than [650] not to be more than [10]% as of the Cut-off Dates.
- New to credit customers should be maximum 15% of the portfolio as of the Cut-off Dates.
- Exposure to each industry shall not exceed 25% of the portfolio as of the Cut-off Dates.

Trigger events for early amortisation

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

- Usage of Cash Collateral/First Loss Credit Enhancement during the Replenishment Period
- Rating downgrade for the PTC Series A1
- Rating downgrade for the Originator
- 3 months rolling average PAR 30 delinquency exceeds [6.5]% of the outstanding pool principal balance
- 3 months rolling average PAR 90 delinquency exceeds [4.0]% of the outstanding pool principal balance
- 3 months rolling average excess spread lower than [8]% p.a.
- Servicer's Event of Default
- PTC Series A1 Outstanding Amount is greater than 86% of the Current Performing Outstanding balance (defined as ODPD portfolio principal balance).

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement: The current pool is granular with no obligor exceeding 0.01% of the pool principal and the follow-on pools are also expected to be granular, 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 target overcollateral amount criteria the EIS would be passed to PTC Series A1 for the first six months of the replenishing period which would lead to increasing the subordination for PTC Series A1 and equity tranche to 27.5% and 20.5% respectively (assuming 100% collection efficiency and nil prepayment).

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.

Adequate servicing capability of the originator- The originator has adequate processes for servicing of the loan accounts in the securitised pool. It has a demonstrated track record of over a decade of regular collections across multiple geographies.

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. A higher presence of lower interest rates contracts would impact the excess interest spread adversely which acts as a credit enhancement in the structure.

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 pool principal collection during its tenure at 5.50% of the initial pool principal 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.

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 ~7.0 times the estimated loss in the pool.

The liquidity for Equity Tranche PTCs is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~5.5 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 (AFL) could also exert pressure on the ratings.

Analytical approach

The rating action is based on the analysis of the performance of AFL’s portfolio till December 2024, the key characteristics and composition of the current pool, the eligibility criteria for follow-on pools, the performance expected over the balance tenure of the pools, and the credit enhancement cover available in the transaction.

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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon the execution of:

1. Trust deed
2. Assignment agreement
3. Power of Attorney
4. Legal opinion
5. Trustee letter
6. Auditor’s certificate
7. Any other documents executed for the transaction

Validity of the provisional rating

The Trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional rating would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional rating will be withdrawn in accordance with ICRA’s Policy on Provisional Ratings available at www.icra.in.

About the originator

AFL is a non-banking financial company, which provides loans to micro and small enterprises in semi-urban areas with an annual turnover of Rs. 10 lakh-1 crore. AFL offers loans either through hypothecation of working assets (88% of AUM as on September 30, 2024) or through mortgage properties (mortgage loan and quasi-mortgage loan constituting 10% and 2% of AUM respectively as on September 30, 2024). Secured loans comprised 60% of the on-book portfolio as on March 31, 2024. The company commenced operations in FY2014 and is founded under the leadership of Mr. Sanjay Sharma who has experience in retail lending. AFL is backed by private equity investors – Capital G (Google), Falcon Edge, SAIF Partners (Elevation), A91 Partners, LGT Impact, Maj Invest, British International Investments, ABC Impact and others. As on September 30, 2024, the company had operations in 21 states/Union Territories through 485 branches, managing a portfolio of Rs. 4,975 crore.

Key financial indicators

| | FY2023 | FY2024 | H1 FY2025 |
|----------------------|--------|--------|-----------|
| Total income | 637 | 1,066 | 711 |
| PAT | 54 | 161 | 108 |
| Total managed assets | 2,721 | 4,473 | 4,975 |
| Gross stage 3 assets | 2.5% | 3.2% | 3.3% |
| CRAR | 31.1% | 32.8% | 37.6% |

Source: Company; ICRA research; All ratios as per ICRA calculations; Amounts 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 (FY2026) | | Chronology of Rating History for the Past 3 Years | | | |
|--------|-----------------------|-------------------------|--------------------------|---|-------------------------|-------------------------|-------------------------|
| | | Instrument | Amount Rated (Rs. crore) | Date & Rating in FY2026 | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 |
| | | | | June 06, 2025 | - | - | - |
| 1 | HITHIKA 01 TRUST 2025 | PTC Series A1 | 281.49 | Provisional [ICRA]AA+(SO) | - | - | - |
| | | Equity Tranche PTCs | 23.18 | Provisional [ICRA]A+(SO) | - | - | - |

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---------------------|----------------------|
| PTC Series A1 | Moderately Complex |
| Equity Tranche 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 |
|----------------------------------|---------------------|-----------------------------|-----------------------|-------------------|--------------------------|---------------------------|
| HITHIKA 01 TRUST 2025 | PTC Series A1 | June 10, 2025 | 10.05% | February 17, 2029 | 281.49 | Provisional [ICRA]AA+(SO) |
| | Equity Tranche PTCs | | Nil | February 17, 2029 | 23.18 | Provisional [ICRA]A+(SO) |

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

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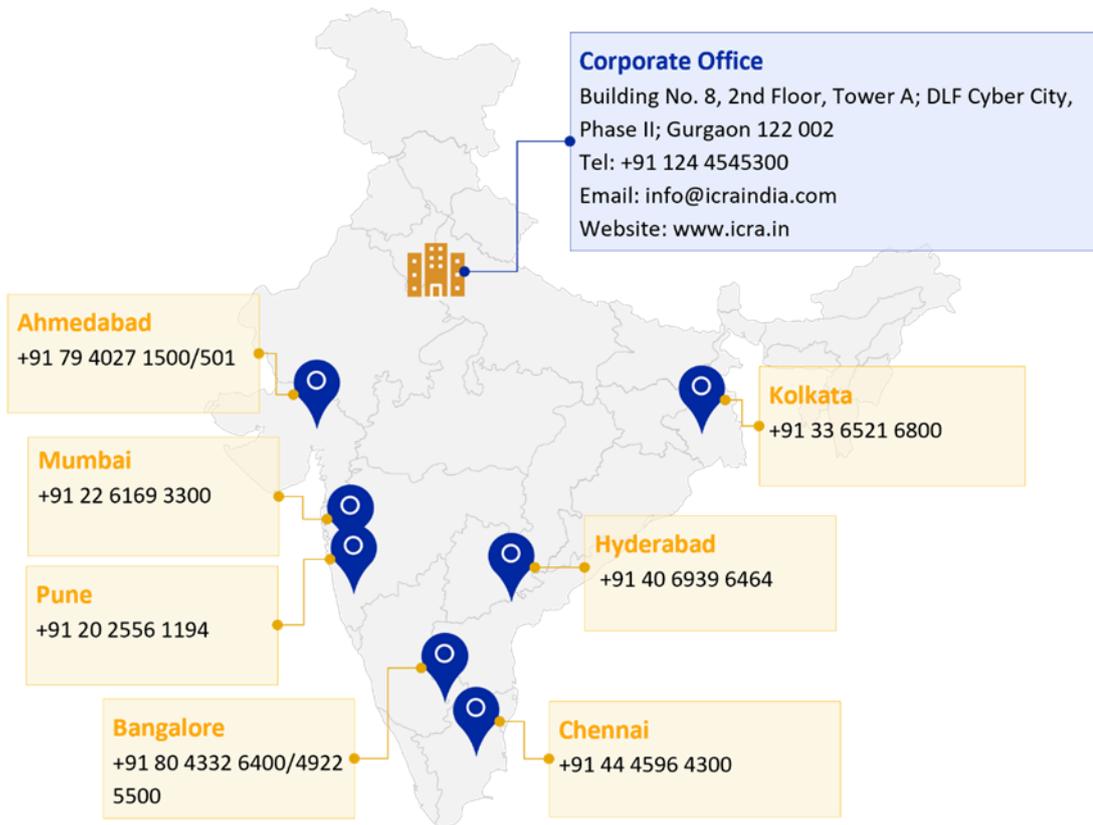
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