December 06, 2024

Aye Finance (P) Ltd.: Rating reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term bank facilities – Unallocated	50.00	550.00	[ICRA]A (Stable); reaffirmed/assigned
Total	**50.00**	**550.00**	

**Instrument details are provided in Annexure I*

Rationale

The assigned rating factors in Aye Finance (P) Limited's (Aye Finance) comfortable capitalisation profile along with the improvement in its scale of operations and earnings profile. The company has been raising equity capital regularly to support its growth and is comfortably capitalised to meet its envisaged growth over the near-to-medium term. The most recent capital infusion was Rs. 250 crore in Q2 FY2025. Aye Finance has been able to scale up its assets under management (AUM) at a compound annual growth rate of 46% during FY2018-FY2024 to Rs. 4,473 crore as on March 31, 2024 (Rs. 4,975 crore as on September 30, 2024). Also, its earnings profile has been improving with scale and operating efficiency. The company reported a profit after tax (PAT) of Rs. 161 crore in FY2024 (Rs. 108 crore in H1 FY2025), translating into a return of 3.7% on average managed assets (AMA) and 16.1% on average net worth compared to Rs. 54 crore, 1.9% and 7.3%, respectively, in FY2023. ICRA expects the trend to continue with further improvement in the operating efficiency.

The rating is, however, constrained by Aye Finance's moderate asset quality indicators. The company's gross stage 3 assets (GS-3) stood at 3.3% as on September 30, 2024. Additionally, it has exposure to security receipts (0.2% of on-book portfolio) with respect to the delinquent portfolio sold in FY2022 and FY2023. A major part of Aye Finance's AUM comprised hypothecation loans (around 88%) as on September 30, 2024. Given the marginal borrower profile, primarily consisting of self-employed customers, and the assessed income-based lending model, the segment remains susceptible to income shocks, which has led to higher delinquencies in the past. However, ICRA factors in Aye Finance's track record of operations in this segment.

The Stable outlook on the rating reflects ICRA's opinion that Aye Finance will be able to continue scaling up its operations while maintaining comfortable capitalisation and a healthy earnings profile.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – Aye Finance's capital-to-risk weighted assets ratio (CRAR) of 37.6%, as on September 30, 2024, was well above the regulatory requirement. With a net worth of Rs. 1,597 crore, the managed gearing stood at 2.8 times as on September 30, 2024. The company has been raising equity capital regularly to support its growth plans; the most recent capital infusion was Rs. 250 crore in September 2024. In ICRA's opinion, given the recent capital raise, Aye Finance is comfortably capitalised to meet its envisaged growth over the near-to-medium term.

Improving earnings profile – The company's earnings profile has been improving, led by the increase in the scale and the enhanced operating efficiency. It reported a PAT of Rs. 161 crore in FY2024 (Rs. 108 crore in H1 FY2025), translating into a return of 3.7% on AMA and 16.1% on average net worth compared to Rs. 54 crore, 1.9% and 7.3%, respectively, in FY2023. Despite the systemic rise in interest rates, Aye Finance has been able to maintain healthy net interest margins, supported by the improvement in yields. Given the target borrower segment, credit costs remained elevated at 3.0% of AMA in FY2024 (2.6% in FY2023), though operating expenses moderated to 8.8% of AMA in FY2024 from 10.3% in FY2023 with the improvement in the scale of operations. ICRA takes note of the increase in credit costs to 3.5% in H1 FY2025. Aye Finance's ability to control slippages and the consequent credit costs remains a key monitorable from a profitability perspective. ICRA expects the company to maintain healthy net interest margins along with a gradual improvement in the operating efficiency as it continues to scale up its operations.

Credit challenges

Moderate asset quality indicators – Aye Finance's asset quality weakened in FY2022 owing to the Covid-19 pandemic-led disruptions. However, given the increase in write-offs during FY2022-FY2023 and the sale of the portfolio to an asset reconstruction company (ARC), the GS-3 declined to 2.5% as on March 31, 2023 from the high level of 7.7% as on December 31, 2021. However, it increased to 3.3% as on September 30, 2024 due to higher slippages. Additionally, it has exposure to security receipts (0.2% of on-book portfolio) with respect to the delinquent portfolio sold in FY2022 and FY2023. Nevertheless, it had a provision coverage ratio (PCR) of around 66% on the GS-3 as on September 30, 2024 and the net stage 3 (NS-3) was lower at 1.2% as on that date. Aye Finance's ability to arrest further slippages and achieve recoveries from its delinquent portfolio, as it continues to scale up its operations, would remain a key monitorable from a credit perspective.

Marginal borrower profile with susceptibility to income shocks – Aye Finance primarily lends to micro businesses like kiranas/general stores, dairies, manufacturers and traders with an annual turnover of Rs. 10 lakh-1 crore. With an average ticket size of Rs. 1-1.5 lakh, hypothecation loans and quasi-mortgage loans comprised 90% of the AUM as on September 30, 2024. The customers in this segment typically have limited credit history and their cash flows could be volatile and highly sensitive to minor business disruptions and external shocks. Also, such borrowers would have limited financial flexibility to pay more than one or two instalments at a time. Given the marginal borrower profile, comprising mostly self-employed customers, and the assessed income-based lending model, the segment remains susceptible to income shocks, which has led to higher delinquencies and volatility in the asset quality. ICRA notes that the company is gradually scaling up its mortgage loan portfolio and plans to increase its share in the AUM to 15-20% in the near-to-medium term from 10% as on September 30, 2024.

Liquidity position: Adequate

The company's liquidity profile is adequate with unencumbered on-book liquidity of Rs. 928 crore as on September 30, 2024. This, along with the scheduled collections of Rs. 2,135 crore till September 30, 2025, is sufficient to meet the scheduled debt obligations of Rs. 2,055 crore during this period. The presence of sanctioned unutilised funding lines also supports the liquidity profile. As per Aye Finance's asset-liability management (ALM) statement as on September 30, 2024, there were no cumulative mismatches across buckets.

Rating sensitivities

Positive factors – A sustained increase in the scale of operations, while maintaining adequate profitability and keeping the asset quality and capitalisation at prudent levels, could positively impact the rating.

Negative factors – A sustained deterioration in the asset quality (90+ days past due (dpd)/AUM beyond 5%), thereby impacting the profitability, could put pressure on the rating. A sustained increase in the managed gearing above 4.5 times or a deterioration in the liquidity profile could also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Aye Finance (P) Limited (Aye Finance) 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. It 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 constituted 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. Aye Finance 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 482 branches, managing a portfolio of Rs. 4,975 crore.

Key financial indicators (audited)

Aye Finance (P) Ltd.	FY2023	FY2024	H1 FY2025*
Accounting as per	**IndAS**	**IndAS**	**IndAS**
Total income	637	1,066	711
PAT	54	161	108
Total managed assets	3,315	5,360	6,329
Return on managed assets	1.9%	3.7%	3.7%
Managed gearing (times)	3.2	3.1	2.8
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's calculations; *Limited review; Amount in Rs. crore*
Managed gearing = (on-book debt + off-book portfolio) / net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount (Rs. crore)	Date & Rating in FY2025		Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022
				Dec-6-2024	Oct-4-2024	May-19-2023	Mar-15-2023	Jan-27-2023	Jan-28-2022
1	Long term Bank facilities-unallocated	Long term	550.00	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	-
2	Non-convertible debentures	Long term	-	-	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	Non-convertible debentures	Long term	-	-	-	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
4	Non-convertible debentures	Long term	-	-	-	-	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Stable)
5	Term loans	Long term	-	-	-	-	-	-	[ICRA]BBB+ (Stable); withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term bank facilities – Unallocated	Not applicable

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long term bank facilities – Unallocated**	NA	NA	NA	550.00	[ICRA]A (Stable)

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

A M Karthik
+91 44 4596 4308
a.karthik@icraindia.com

Prateek Mittal
+91 33 7150 1100
prateek.mittal@icraindia.com

Arpit Agarwal
+91 124 4545 873
arpit.agarwal@icraindia.com

Chandni
+91 124 4545 300
chandni@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 2433 1084
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

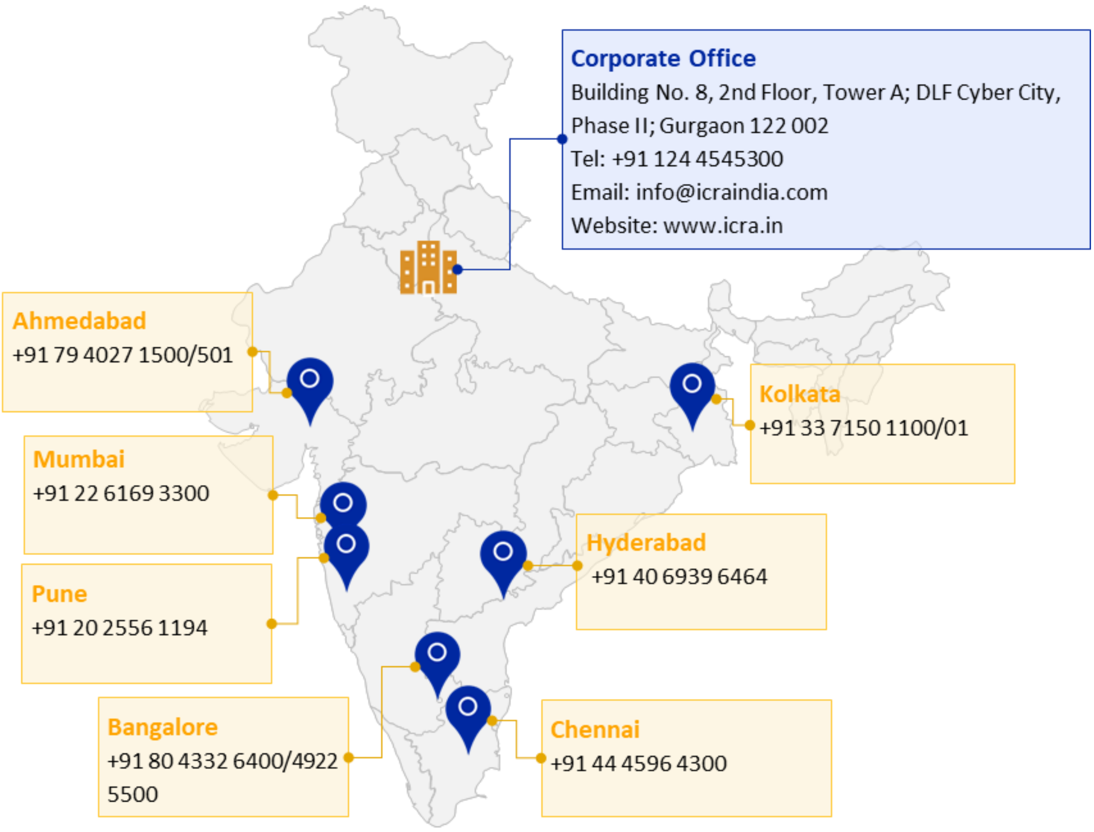
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.