

July 20, 2017

Aye Finance Private Limited

Summary of rated instruments*

Instrument	Rated Amount (Rs. crore)	Rating Action
NCD Programme	26.00	ICRA]BBB- (stable) assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]BBB- (pronounced ICRA triple B minus)¹ with a stable outlook to the Rs. 26 crore NCD programme of Aye Finance Private Limited (AFPL). ICRA has rating of [ICRA]BBB- (stable) outlook outstanding on the Rs 55.60 crore Bank lines and Rs 54 crore NCD Programme of Aye Finance Private Limited.

Rationale

The rating takes into consideration AFPL's experienced promoters and senior management team and their expertise in the retail lending space; the company's prudent lending norms and processes with a cluster based lending approach which has helped it to develop a good understanding of its customer segment and geographies of operations; and the good growth potential in the micro and small enterprises financing segment. The rating also factors in AFPL's comfortable capitalisation (net worth of Rs. 86.9 crore and gearing of 0.81 times as on March 31, 2017), adequate funding profile (funding lines from 14 lenders) and geographically diversified portfolio. The rating is however constrained by AFPL's focus on a relatively risky borrower segment who are vulnerable to economic shocks; its moderate scale of operations (portfolio of Rs. 160.54 crore as on May 31, 2017); and limited seasoning of the loan book. ICRA also takes into account the company's weak profitability indicators owing to its relatively high operating expenses and the risks associated with a high pace of growth albeit on a smaller scale. Overall, the company's ability to profitably scale up operations in new geographies while maintaining adequate capitalisation on a larger asset base would be a key rating sensitivity.

AFPL's asset quality indicators were moderate with 0+ dpd slipping from 2.87% as on September 30, 2016 to 7.89% as on December 31, 2016 primarily on account of the government's demonetisation announcement and the resultant shortage of currency. However, its 0+ dpd improved to 6.33% and 90+ stood at 2.73% as on May 31, 2017, reflecting an improving trend in collections. Considering its marginal borrower profile, their vulnerability to income shocks, limited seasoning of the loan portfolio and its significant expansion plans, the company's ability to improve its asset quality while achieving its growth targets will be critical from a credit perspective

¹ For complete grading scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

Key rating drivers**Credit strengths**

- Experience of the promoters and management in financial services and retail lending space and a good understanding of the target market
- Favourable growth outlook for MSME financing
- Good loan origination, appraisal and management systems
- Adequate capitalisation indicators

Credit weaknesses

- Small scale of operations (portfolio size of Rs. 160.54 crore as on May 31, 2017) and limited track record
- Ability to grow the portfolio while maintaining adequate spreads and control on asset quality yet to be demonstrated; however, good appraisal process and loan tracking systems in place
- Marginal borrower profile with high susceptibility to income shocks
- Dependence on wholesale funding sources; ability to diversify funding profile and tie-up larger funding lines from lenders to meet growth plans yet to be seen
- High operating expenses owing to small scale of operations and branch expansion

Description of key rating drivers:

AFPL's management team is experienced in the retail lending space. AFPL follows a cluster based approach where it identifies business clusters, and performs a preliminary market research for understanding the dynamics of the cluster by interacting with buyers, suppliers and manufacturers. Once a cluster is selected, the company opens a branch and starts lending to that cluster. AFPL is present in around 40 clusters across 33 branches as on March 31, 2017 in the states of Uttar Pradesh, Rajasthan, Delhi, Haryana, Punjab, Uttarakhand, Tamil Nadu and Karnataka. AFPL plans to open around 40 branches by FY2018 to reach a total of more than 70 branches by the end of FY2018.

AFPL lends to businesses like kirana / general store, dairy, manufacturers and traders. The loans extended by AFPL are based on assessed income of its customers. AFPL has a centralised credit team at the head office which approves all the loans. AFPL focuses on micro business segments with an annual turnover of Rs. 10 lakh to Rs. 1 crore. The company offers hypothecation loans which are unsecured and mortgage loans (including quasi mortgage loans) which are secured against pledge of property. AFPL had a portfolio outstanding of Rs. 160.54 crore as on May 31, 2017 with hypothecation loans accounting for 62% of the portfolio, quasi mortgage loans 35% and mortgage loans accounting for the remaining 3%. Going forward, the company plans to grow at a CAGR of 122% over the next three years, with the share of secured portfolio (mortgage and quasi mortgage loans) expected to be ~50%. Given the relatively low vintage of the portfolio and the high growth plans, it would be critical for the company to maintain healthy asset quality indicators as it scales up its operations.

AFPL is currently adequately capitalised (gearing of 0.81 times as on March 31, 2017). The company plans to grow at a CAGR of 122% over the next three years and would need to raise additional equity capital of around Rs. 180 - 220 crore over this period assuming a gearing target of 3 times and internal capital generation of 10%. ICRA takes cognisance of the recent capital infusion of Rs. 70 crore in November 2016 by three private equity investors - Accion Africa-Asia Investment Company, SAIF Partners India V Limited and LGT Capital Invest Mauritius PCC with cell E/VP. Going forward, the company's ability to maintain prudent capitalisation levels and raise the planned equity in the growth phase will have an important bearing on AFPL's credit profile.

AFPL earns a yield of ~28% on its loan portfolio. Given its cost of funds of 14.50%, the company earns interest spreads of 13.50%. The company's operating expense ratio was high at 18.7% for FY2017 owing to some one-time expenditure in the fiscal and some newly opened branches not achieving breakeven, which led to weak profitability indicators (net loss of Rs. 6.93 crore on a managed asset base of Rs. 163 crore for FY2017). While AFPL's small ticket sizes and extensive appraisal process are likely to exert a pressure on its operating expenses, its high processing fees (of 2.5%) and expected operational efficiencies from the larger scale of operations going forward are likely to moderate the impact of the higher expenses on overall profitability. ICRA notes that while operating expenses are likely to remain high as the company plans to more than double its branch count by the end of FY2018, it would be critical to improve the profitability of the older branches, to enable operating expenses to moderate to lower levels.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company

Aye Finance Private Limited (AFPL) is a Delhi based non-banking financial company (NBFC) lending to micro-enterprises in rural and semi-urban areas. The company commenced operations in November 2013. AFPL is promoted by Mr. Sanjay Sharma and Mr. Vikram Jetley – both promoters have prior experience in retail lending. The company raised a capital of Rs. 70 crore as compulsorily convertible preference shares and equity in November 2016 led by LGT Impact Ventures (invested around Rs. 30 crore) along with existing investors SAIF Partners and Accion. The company operated through 33 branches in 8 states of Uttar Pradesh, Rajasthan, Haryana, Punjab, Uttarakhand, Delhi NCR, Karnataka and Tamil Nadu as on March 31, 2017.

AFPL reported a net loss of Rs. 6.93 crore on a managed asset base of Rs. 163 crore in FY2017 vis-a-vis a net loss of Rs. 4.08 crore on a managed asset base of Rs. 63.92 crore in FY2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current Rating					Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	FY2018			FY2017	FY2016	FY2015
				July 2017	May 2017	April 2017	March 2017	April 2015	April 2014
1	NCD Programme	Long term	26.00	[ICRA]BBB-(Stable); Assigned	-	-	-	-	-
1	NCD Programme	Long term	27.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable); Assigned	-	-	-	-
1	NCD Programme	Long term	27.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable); Assigned	-	-	-
2	Bank Lines	Long term	55.60	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable); Assigned	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NCD Programme - 3	31-July-2017	12.86%	29-July-2022	26.00	[ICRA]BBB- (Stable)
NCD Programme - 2	19-Jun-2022	13.24%	17-Jun-2022	27.00	[ICRA]BBB- (Stable)
NCD Programme - 1	16-May-2017	13.24%	13-May-2022	27.00	[ICRA]BBB- (Stable)
Term Loan – 1	30-Apr-2016	15.75%	30-Apr-2018	1.63	[ICRA]BBB- (Stable)
Term Loan – 2	31-Dec-2015	13.35%	30-Jun-2018	1.11	[ICRA]BBB- (Stable)
Term Loan - 3	15-Jan-2016	16.50%	31-Jul-2017	0.49	[ICRA]BBB- (Stable)
Term Loan – 4	31-Mar-2016	13.62%	7-Apr-2018	1.15	[ICRA]BBB- (Stable)
Term Loan – 5	5-Nov-2015	15.50%	6-Nov-2017	0.74	[ICRA]BBB- (Stable)
Term Loan – 6	31-Dec-2015	15.50%	1-Jan-2018	1.23	[ICRA]BBB- (Stable)
Term Loan – 7	25-Feb-2016	15.50%	31-Aug-2018	3.08	[ICRA]BBB- (Stable)
Term Loan – 8	28-Mar-2016	15.50%	1-Oct-2018	3.23	[ICRA]BBB- (Stable)
Term Loan – 9	17-Jun-2016	15.50%	17-Dec-2018	7.39	[ICRA]BBB- (Stable)
Term Loan – 10	28-Sep-2016	15.30%	30-Sep-2019	6.04	[ICRA]BBB- (Stable)
Term Loan – 11	15-Dec-2015	17.75%	20-Dec-2017	1.40	[ICRA]BBB- (Stable)
Term Loan – 12	17-Aug-2016	14.50%	31-Jul-2019	2.50	[ICRA]BBB- (Stable)
Term Loan – 13	5-Dec-2015	15.50%	10-Jun-2017	0.33	[ICRA]BBB- (Stable)
Term Loan – 14	31-Mar-2016	14.50%	30-Sep-2017	1.67	[ICRA]BBB- (Stable)
Term Loan – 15	27-Sep-2016	15.25%	27-Sep-2019	8.33	[ICRA]BBB- (Stable)
Term Loan – 16	28-Sep-2015	14.50%	28-Sep-2017	0.62	[ICRA]BBB- (Stable)
Term Loan – 17	31-Jan-2017	13.25%	31-Jan-2019	1.00	[ICRA]BBB- (Stable)
Term Loan – 18	31-Dec-2015	15.50%	1-Jul-2017	0.48	[ICRA]BBB- (Stable)
Term Loan – 19	3-Sep-2016	15.00%	1-Sep-2018	4.66	[ICRA]BBB- (Stable)
Term Loan – 20	5-Jul-2016	15.00%	1-Aug-2019	4.40	[ICRA]BBB- (Stable)
Term Loan – 21	31-Mar-2017	13.25%	31-Mar-2019	4.00	[ICRA]BBB- (Stable)

Source: Aye Finance Private Limited

Contact Details

Analyst Contacts

Rohit Inamdar

+91-124-4545847

rohit.inamdar@icraindia.com

Supreet Nijjar

+91-124-4545324

supreetan@icraindia.com

Saagar Malhotra

+91-124-4545308

saagar.malhotra@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

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.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500