

September 13, 2022

## Aye Finance (P) Ltd.: Rating reaffirmed for Market Linked Non-convertible Debenture programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Market linked non-convertible debenture	50.00	50.00	PP-MLD [ICRA]AA(CE) (Stable); reaffirmed
Non-convertible debentures (NCDs)	446.00	446.00	[ICRA]BBB+ (Stable); outstanding
<b>Total</b>	<b>496.00</b>	<b>496.00</b>	

Rating Without Explicit Credit Enhancement

[ICRA]BBB+

\*Instrument details are provided in Annexure I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

### Rationale

The rating action has factored in the structural features available in the transaction such that, in the event of non-payment of its expected repayments by Aye Finance (P) Ltd. (AFPL), the cover pool would be utilised to support the servicing of the rated instruments. The cover pool consists of small business loan (SBL) receivables, which meet the eligibility criteria at the time of issuance. The key structural features of the rated instruments are summarised below.

Instrument	Trust Name	Security Cover	Structural Feature
Rs. 50.00-crore PP-MLD	Newton Trust 2021	1.30x cover pool <sup>^</sup>	Pool to be assigned to the trust on the occurrence of predefined trigger events; post trigger events, all collections from the cover pool will be transferred to the Debenture Trustee of the rated debenture

<sup>^</sup> The cover pool requirement is calculated on the outstanding principal and accrued interest

The rating also draws comfort from AFPL's track record of operating in the micro, small and medium enterprise (MSME) financing segment. Nonetheless, post any trigger event, the performance of the cover pool would be exposed to any further disruptions that may arise due to the Covid-19 pandemic.

### Structure details, adequacy of credit enhancement and salient features of rated instrument

Details on the structure, adequacy of the credit enhancement and salient features of the rated instrument are available in ICRA's previous rationale.

Rs. 50.00-crore PP-MLD [Newton Trust 2021]: [Click here](#)

### Key rating drivers and their description

#### Credit strengths

**Presence of cover pool to support servicing of the rated facility in the event of non-payment by the entity** – The principal and the interest on the MLD are promised to the MLD investors on the legal maturity date. The primary obligation of meeting

the payments on the MLD is on AFPL. However, if AFPL does not meet the expected payments on the MLD, the collections from the cover pool will be available to the Debenture Trustee. Furthermore, the instrument has credit enhancement in the form of over-collateralisation (1.30x), which acts as a buffer if the collections in the cover pool decline.

**Moderate eligibility criteria for cover pool** – Contracts at the time of assignment should be current and contracts that are delinquent by more than 30 days would be excluded from the cover computation. Even the proportion of contracts which are delinquent, but for less than 30 days, should be less than 5% of the outstanding pool at any point of time.

### Credit challenges

**Pool's performance would remain exposed to disruptions caused by the pandemic, post a trigger event** – The company had witnessed moderation in asset quality with the onset of covid-19 pandemic. Going forward, AFPL's ability to manage fresh disruptions that may arise due to the pandemic would remain critical from a rating perspective.

**While MLD yield is fixed, the spread between pool yield and MLD yield (acting as credit support) could shrink due to cover pool's characteristics** – The benefit available on account of the difference between the pool yield and the MLD yield may shrink in case the pool, at the time of the occurrence of the trigger event, consists of contracts which have a lower internal rate of return (IRR). However, this is mitigated as almost the entire portfolio of AFPL comprises loans with an IRR of 24% or more.

### Liquidity position

#### For PP-MLD [ICRA]AA(CE) (Stable): Strong

The principal and the interest on the MLD are promised to the lender on the legal final maturity date subject to the non-occurrence of a trigger event. The cash flows from the cover pool are expected to be comfortable to meet the debt servicing in the event that the entity has been unable to meet the scheduled payments on the MLD.

#### For the [ICRA]BBB+ rating without explicit credit enhancement: Adequate

As per AFPL's liquidity statement as on June 30, 2022, its liquidity profile is adequate with no negative cumulative mismatches up to five years. The liquidity profile is supported by the adequate on-balance sheet unencumbered liquidity of Rs. 348 crore as on June 30, 2022 against scheduled debt obligations of Rs. 412 crore and scheduled collections of Rs. 748 crore till December 31, 2022. Factoring in the expected collections from advances, the liquidity profile is adequate for meeting the debt obligations in a timely manner.

### Rating sensitivities

#### For PP-MLD [ICRA]AA(CE) (Stable)

**Positive factors** – The rating is unlikely to be upgraded.

**Negative factors** – The rating could be downgraded on non-adherence to the key transaction terms envisaged at the time of rating. The rating could also come under pressure in case of a deterioration in AFPL's asset quality or credit profile.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Non-banking Finance Companies</a> <a href="#">Covered Bond Transactions</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

## About the company

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 – Rs. 1 crore. The company commenced operations in FY2014 and is promoted by Mr. Sanjay Sharma and Mr. Vikram Jetley, who have prior experience in retail lending. Aye Finance is backed by strong private equity (PE) investors – Capital G (Google), Falcon Edge, SAIF Partners, A91 Partners, LGT Impact and others.

As on March 31, 2022, the company had operations in 20 states/Union Territories (Uttar Pradesh, Rajasthan, Haryana, Punjab, Uttarakhand, Delhi NCR, Karnataka, Tamil Nadu, Andhra Pradesh, Telangana, Madhya Pradesh, Maharashtra, Himachal Pradesh, Bihar, Gujarat, Jharkhand, Chhattisgarh, Chandigarh, Jammu & Kashmir and West Bengal) through 312 branches.

It reported a net loss of Rs. 46 crore on a total managed assets base of Rs. 2,371 crore in FY2022 vis-à-vis a net profit of Rs. 17.0 crore on a total managed assets base of Rs. 2,217 crore in FY2021.

### Key financial indicators (audited)

Aye Finance (P) Ltd.	FY2020	FY2021	FY2022
Accounting as per	IndAS	IndAS	IndAS
Net interest income	261	256	265
PAT	32	17	(46)
Net worth	517	747	706
Total managed assets	2,084	2,217	2,371
PAT/ Average managed assets	1.9%	0.8%	-2.0%
PAT/ Average net worth	6.5%	2.7%	-6.3%
Gross NPAs	2.2%	3.3%	3.3%
Net NPAs	0.1%	0.8%	1.4%
Net NPA/ Net worth	0.5%	1.6%	3.3%
Capital adequacy ratio	31%	41%	36%
Gearing (reported; times)	2.76	1.79	2.19

Source: Company, 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

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
				September 13, 2022	September 14, 2021	August 25, 2021	-	-
1 Market Linked Non-convertible debenture	Long term	50.00	50.00	PP-MLD [ICRA]AA(CE) (Stable)	PP-MLD [ICRA]AA(CE) (Stable)	Provisional PP-MLD [ICRA]AA(CE) (Stable)	-	-

For details on other ICRA-rated instruments of the company, refer to the rationales given [here](#)

## Complexity level of the rated instrument

Trust Name	Instrument	Complexity Indicator
Newton Trust 2021	Market Linked Non-convertible debenture	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: [www.icra.in](http://www.icra.in)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
<b>INE501X07240</b>	Market Linked Non-convertible debenture	Sep 2021	9.25%*	Sep 2023	50.00	PP-MLD [ICRA]AA(CE) (Stable)

\* Per annum; Additionally, step-up interest of 4.00% applicable from date of issuance in case of trigger event  
 Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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