March 15, 2023

Aye Finance (P) Ltd.: Rating reaffirmed; Rating simultaneously reaffirmed and withdrawn for Rs. 44-crore NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	65.00	65.00	[ICRA]BBB+ (Positive); reaffirmed
Non-Convertible Debentures	44.00	0.00	[ICRA]BBB+ (Positive); reaffirmed and simultaneously withdrawn
Total	**109.00**	**65.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to factor in healthy increase in Aye Finance Private Limited's (Aye Finance) scale of operations and the improvement in its earnings profile along with its ability to maintain an adequate capitalisation profile. ICRA expects the company to maintain healthy growth in its scale and improve its profitability further, thereby enhancing its credit profile going forward. The rating also continues to take comfort from Aye Finance's experienced promoter and senior management team and its adequate loan origination and credit appraisal systems.

Aye Finance's assets under management (AUM) grew 38% (annualised) to Rs. 2,204 crore as on December 31, 2022 from Rs. 1,728 crore as on March 31, 2022 (Rs. 1,569 crore as on March 31, 2021) on account of higher disbursements. The company remains adequately capitalised with a managed gearing[1] of 2.6 times as on December 31, 2022 (2.2 times as on March 31, 2022) while the capital to risk weighted assets ratio (CRAR) of 33.4% was well above the regulatory requirement of 15% as on December 31, 2022. Going forward, its ability to further ramp up its operations while improving its earnings profile and maintaining a prudent capitalisation profile will be critical from a credit perspective.

The rating is, however, constrained by Aye Finance's moderate asset quality indicators owing to the disruptions caused by the Covid-19 pandemic and the corresponding impact on its profitability. The company reported an increase in its gross stage 3 (GS-3) to 3.56% as on December 31, 2022 from 3.29% as on March 31, 2022 because of slippages in the restructured book.

ICRA notes that, after witnessing subdued profitability in FY2022 on account of low margins and high credit costs, the company reported an improvement in its earnings profile in 9M FY2023 because of the improvement in its margins. ICRA expects the company to witness further improvement in its profitability, going forward, driven by the increase in margins and reduction in credit costs. Aye Finance's ability to arrest further slippages and recover from its restructured and delinquent portfolio would remain a key monitorable from a credit perspective. Moreover, its funding profile remained relatively concentrated towards funding from non-banking financial companies (NBFCs) and domestic and international financial institutions (FIs). Going forward, the company's ability to further diversify its lender base will remain critical for scaling up its business.

The Positive outlook reflects ICRA's opinion that Aye Finance will be able to demonstrate healthy growth in its scale of operations and improve its profitability indicators further, supported by its experienced management and good systems and processes.

Aye Finance also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial, operating and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to

[1] *Managed gearing = (on-book debt + off-book portfolio) / net worth*

pay off the accelerated loans, the rating would face pressure. However, ICRA notes that Aye Finance has received waivers/no action letters from some of its lenders upon the breach of covenants during the pandemic and has been able to raise fresh funds, despite covenant breaches during the pandemic.

The rating outstanding of [ICRA]BBB+ (Positive) for the Rs. 44-crore NCD programme of the company stands withdrawn as requested by the company. This is in accordance with ICRA's policy on withdrawal of credit ratings in the case of securities. The rating has been withdrawn basis the receipt of no-objection certificate from all the security holders corresponding to the debt outstanding, besides the receipt of other documents as mentioned in ICRA's policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Experienced management team – Since commencing operations in FY2014 by lending to small and micro-enterprises, Aye Finance has an adequate track record. It draws upon the experience of its promoter and management personnel, who have diversified experience of more than 15 years across banks and other FIs.

The company has adequate loan origination and credit appraisal systems. The credit underwriting system comprises various checks and balances starting from know your customer (KYC) document collection, multiple reference checks, credit bureau checks, home and multiple visits, business viability, estimated cash flows and other debt liabilities, if any. The final credit call is taken by the centralised credit team with multiple levels of approval required at the branch. Post loan disbursement, loan utilisation checks are also conducted to verify the end use of the loan.

Adequate capitalisation profile – While Aye Finance witnessed a degrowth in its portfolio due to the pandemic, it was able to ramp up its operations and increase its AUM to Rs. 2,204 crore as on December 31, 2022 from Rs. 1,728 crore as on March 31, 2022. Given its current scale of operations and targeted growth in the near term, the company is adequately capitalised with a managed gearing of 2.6 times as on December 31, 2022 (2.2 times as on March 31, 2022) and a CRAR of 33.4% as on December 31, 2022 (36.0% as on March 31, 2022).

Given the envisaged growth plans, the gearing is expected to increase with the incremental business being funded through fresh borrowings. The management plans to operate at a leverage (on-book gearing) of 3-4 times and sustain the same over the medium to long term. Going forward, ICRA expects the company to raise equity capital in a timely manner to support its stated growth plans. Its ability to do so, while growing its book, will remain a monitorable.

Credit challenges

Moderate asset quality indicators and profitability profile – The company's asset quality deteriorated in FY2022 owing to the pandemic. However, its GS-3 declined to 3.29% as on March 31, 2022 from 7.72% as on December 31, 2021 due to write-offs and the sale of the portfolio to an asset reconstruction company in Q4 FY2022. Given the slippages in the restructured book, which came out of the moratorium, the GS-3 increased further to 3.56%[2] as on December 31, 2022. Moreover, Aye Finance had a restructured portfolio of 2.8% of its AUM as on September 30, 2022 on which the company carries a provision of 32%. Going forward, its ability to increase its collections further and recover from the restructured portfolio will help improve its asset quality indicators.

The company also witnessed subdued profitability indicators in FY2022 due to lower margins on account of the reversal of interest income and increased credit costs as a result of higher write-offs. The company reported negative return on average managed assets (RoMA) and return on equity (RoE) of (2.0%) and (6.3%), respectively, in FY2022. In 9M FY2023, the net interest margin improved with Aye Finance increasing its lending rates while credit costs also declined as the majority of the same was booked in FY2022. As a result, the company reported improved RoMA and RoE of 1.5% and 5.5%, respectively, in 9M FY2023.

[2] *GS-3 of 3.56% is after considering the impact of RBI's circular dated November 12, 2021 titled Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances – Clarifications. As on December 31, 2022, 90+ days past due (dpd) was 3.27%*

The profitability is expected to improve further, subject to Aye Finance's ability to arrest further slippages and recover from its overdue book.

Ability to diversify funding profile and tie up larger funding lines from lenders to meet growth plan – While Aye Finance has a diversified lender base with 32 distinct lender relationships (including 7 banks, 15 NBFCs and 9 domestic and foreign FIs), the dependence on NBFCs/development finance institutions (DFIs)/FIs remains high. Aye Finance remains dependent on the marginally higher-priced NCD funding, which accounted for 65% of the overall funding mix as on September 30, 2022. However, ICRA acknowledges that, despite the rising interest rate scenario, the company has been able to keep its cost of funding under control at 11.1% in 9M FY2023 compared to 11.0% in FY2022. Given its target growth plans, the company will have to increase the share of bank funding in overall funding mix as they are relatively scalable and cost competitive.

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. The customers in this segment have limited credit history in the form of microfinance loans by the co-applicant or smaller-ticket vehicle loans. Their cash flows could be volatile and highly sensitive to minor business disruptions and external shocks. Also, such borrowers do not have the 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 write-offs for Aye Finance.

Liquidity position: Adequate

As per Aye Finance's liquidity statement as on September 30, 2022, its liquidity profile was 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. 415 crore (including ~Rs. 149-crore investment in mutual funds) as on September 30, 2022 against scheduled debt obligations of Rs. 501 crore and scheduled collections of Rs. 823 crore till March 31, 2023. Factoring in the expected collections from advances, the liquidity profile is adequate for meeting the debt obligations in a timely manner.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company is able to scale up its operations further and improve its profitability (RoMA above 3% on a sustained basis) while maintaining its asset quality (90+ days past due (dpd) below 3% of AUM) and diversifying its borrowing sources.

Negative factors – ICRA could change the outlook or downgrade the rating if the company's managed gearing increases to more than 4 times on a sustained basis or if it witnesses a deterioration in its asset quality metrics and profitability indicators.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA Rating Methodology for Non-banking Finance Companies ICRA Policy on Withdrawal of Credit Ratings
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-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 Capital), Falcon Edge Capital, Elevation Capital, A91 Partners, LGT Impact, MAS Invest and others.

As on December 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 397 branches.

It reported a net profit of Rs. 30 crore on gross AUM of Rs. 2,204 crore in 9M FY2023 vis-à-vis a net loss of Rs. 46 crore on gross AUM of Rs. 1,728 crore in FY2022.

Key financial indicators (audited)

Aye Finance (P) Ltd.	FY2020	FY2021	FY2022	9M FY2023*
Accounting as per	**IndAS**	**IndAS**	**IndAS**	**IndAS**
Net interest income	261	256	265	274
Profit after tax	32	17	(46)	30
Net worth	517	747	706	744
Assets under management	1,781	1,569	1,728	2,204
PAT / Average managed assets	1.9%	0.8%	-2.0%	1.5%
PAT / Average net worth	6.5%	2.7%	-6.3%	5.5%
Gross stage 3	2.10%	3.31%	3.29%	3.56%
Net stage 3	0.11%	0.81%	1.37%	1.80%
Capital adequacy ratio	31.0%	41.2%	36.0%	33.3%
Gearing (reported; times)	2.83	1.79	2.19	2.47
Gearing (managed; times)	2.83	1.79	2.19	2.62

*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 (FY2023)					Chronology of Rating History for the Past 3 Years			
							Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
		Type	Amount (Rs. crore)	Amount outstanding (Rs. crore)	Mar-15-2023	Jan-27-2023	Jan-28-2022	Jan-29-2021	Dec-31-2019	Jun-26-2019 Apr-11-2019
1	Non-convertible debentures	Long term	65.00	51.25	**[ICRA]BBB+ (Positive)**	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
1	Non-convertible debentures	Long term	44.00	-	**[ICRA]BBB+ (Positive); withdrawn**	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Non-convertible debentures	Long term	-	-	-	[ICRA]BBB+ (Positive); withdrawn	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)

3.	**Term Loans**	Long term	-	-	-	[ICRA]BBB+ (Stable); withdrawn	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
4.	**Non-convertible debentures**	Long term	-	-	-	-	[ICRA]A (CE) (Stable); withdrawn	[ICRA]A (CE) (Stable)	[ICRA]A- (SO) (Stable)
5.	**Non-convertible debentures**	Long term	-	-	-	-	[ICRA] BBB+ (Stable); withdrawn	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Simple

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
INE501X07125	**NCD**	Jun-26-2019	13.00%	Jun-26-2025	35.00	[ICRA]BBB+ (Positive)
INE501X07067	**NCD**	Mar-22-2018	12.59%	Mar-28-2023	30.00	[ICRA]BBB+ (Positive)
INE501X07042	**NCD**	Aug-17-2017	13.54% and 13.46%	Aug-29-2023	44.00	[ICRA]BBB+ (Positive); withdrawn

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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