

March 31, 2024^(Revised)

Aye Finance (P) Ltd.: Provisional [ICRA]AA(SO) assigned to PTC Series A issued by SBL Janhavi 24, backed by a pool of unsecured business loans

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
SBL Janhavi 24	PTC Series A	50.00	Provisional [ICRA]AA(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful
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Rationale

ICRA has assigned a provisional rating to the pass-through certificates (PTCs) Series A issued under a securitisation transaction originated by Aye Finance (P) Ltd. (AFPL). The PTCs are backed by a pool of unsecured business loan (BL) receivables originated by AFPL with aggregate principal outstanding of Rs. 55.55 crore (pool receivables of Rs. 70.69 crore).

The provisional rating is based on the strength of the cash flows from the selected pool of contracts, the credit enhancement (CE) available in the form of (i) a cash collateral (CC) of 8.00% of the pool principal to be provided by the originator, (ii) subordination of 10.00% of the pool principal, and (iii) the excess interest spread (EIS) of 19.46% in the structure. The provisional rating is also based on the integrity of the legal structure. It is subject to the fulfilment of all the conditions under the structure and the review of the documentation pertaining to the transaction by ICRA.

Key rating drivers

Credit strengths

- Availability of credit enhancement in the form of cash collateral, excess interest spread and overcollateral
- Absence of overdue contracts as on pool cut-off date
- None of contracts in the pool have been delinquent since origination till cut-off date

Credit challenges

- Geographical concentration in the initial pool with top three states attributing to ~53% of the initial pool principal
- Exposed to inherent credit risk associated with the unsecured nature of the asset class; Performance of the pool could also be affected by macro-economic shocks / business disruptions, if any

Description of key rating drivers highlighted above

According to the transaction structure, the loan pool receivables will be assigned at par to the PTC investors. As per the waterfall mechanism for the transaction, the monthly cash flow schedule comprises the promised interest payment to PTC Series A at the predetermined interest rate on the principal outstanding. The principal repayment to PTC Series A is promised on the last payout date.

The first line of support for PTC Series A in the transaction is in the form of a subordination of 10.00% of the pool principal. Additionally, the EIS available in the structure will provide CE support to the transaction. The EIS (19.46% of the pool principal initially, based on the indicated PTC yield, for PTC Series A) will flow back to the originator. All prepayment amounts would be passed on to PTC Series A (till PTC Series A principal is not fully amortised) every month and future payouts will be revised

accordingly. The CC of 8.00% of the initial pool principal, to be provided by AFPL, would act as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts during any month, the trustee will utilise the CC to meet the same.

There were no overdues in the pool as on the cut-off date. The geographical concentration of the loan contracts in the current pool is moderate with the top 3 states constituting ~53% of the pool principal. The pool consists of monthly paying loan contracts, with moderate weighted average seasoning (~6 months) and pre-securitisation amortisation (~18%). The pool has a moderate share of contracts (~37%) with a ticket size of more than Rs. 1.5 lakh. Further, the CIBIL score of all the contracts in the pool is at least 700. The pool has a higher share of contracts with a high interest rate (IRR) with ~57% of the contracts having an IRR of more than 28%. The pool would be exposed to the inherent credit risk associated with the unsecured nature of the asset class and its performance would remain exposed to macro-economic shocks/business disruptions. The company's portfolio had seen stress in the asset quality due to the Covid-19 pandemic, as reflected in higher restructuring and write-offs.

Performance of past rated pools: ICRA has rated 10 pools originated by AFPL. All the pools have matured with a cumulative collection efficiency of more than 93%. While a few pools were impacted by the pandemic, the loss-cum-90+ days past due (dpd) for most of the pools was sub-6%.

Key rating assumptions

ICRA's cash flow modelling for rating asset-backed securitisation (ABS) transactions involves the simulation of potential delinquencies, losses (shortfall in principal collection during the tenor of the pool) and prepayments in the pool. The assumptions for the loss and coefficient of variation (CoV) are arrived at after taking into account the performance of the originator's portfolio as well as the characteristics of the specific pool being evaluated. Additionally, the assumptions may be adjusted to factor in the current operating environment and any industry-specific factors that ICRA believes could impact the performance of the underlying pool of contracts.

After making these adjustments, the expected mean shortfall in principal collection during the tenure of the pool is estimated at 4.50-5.50% of the initial pool principal, with certain variability around it. The prepayment rate for the underlying pool is estimated in the range of 3.2-12.0% per annum.

Liquidity position: Strong

The liquidity for PTC Series A is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~5.75 times the estimated loss in the pool.

Rating sensitivities

Positive factors – The rating could be upgraded on the sustained strong collection performance of the underlying pool of contracts (monthly collection efficiency >95%), leading to lower-than-expected delinquency levels, and on an increase in the cover available for future investor payouts from the CE.

Negative factors – The rating could be downgraded on the sustained weak collection performance of the underlying pool of contracts (monthly collection efficiency of less than 90%), leading to higher-than-expected delinquency levels and CE utilisation levels. Weakening in the credit profile of the servicer could also exert pressure on the rating.

Analytical approach

The rating action is based on the analysis of the performance of AFPL's portfolio till December 2023, the key characteristics and composition of the current pool, the performance expected over the balance tenure of the pool, and the CE 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. Legal opinion
4. Trustee letter
5. Auditor's certificate
6. 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

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 experience in retail lending. Aye Finance is backed by strong private equity investors – Capital G (Google Capital), Falcon Edge Capital, Elevation Capital, A91 Partners, LGT Impact, MAS Invest and others.

Key financial indicators (standalone)

	FY2022	FY2023	9M FY2024
	Audited	Audited	Provisional
Total income	441.4	636.8	750.1
Profit after tax	-45.7	53.8	125.5
Total managed assets	2,370.8	3,305.6	4,662.9
Gross stage 3	3.3%	2.5%	2.9%
CRAR	36.0%	31.1%	38.7%

Source: AFPL, 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

S. No.	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					March 31, 2024	-	-	-	
1	SBL Janhavi 24	PTC Series A	50.00	50.00	Provisional [ICRA]AA(SO)	-	-	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A	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	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
SBL Janhavi 24	PTC Series A	March 2024	10.25% p.a.p.m.	September 2026	50.00	Provisional [ICRA]AA(SO)

Source: Company

*Based on scheduled maturity of the pool contracts; may change on account of prepayment

Annexure II: List of entities considered for consolidated analysis

Not applicable

Corrigendum:

Document dated March 31, 2024, has been corrected with revisions as detailed below:

- Sections where revision has been made:
 - Heading of the press release
 - Summary of rating action
 - Rating history for past three years
 - Annexure I: Instrument details

- Revision made:
 - Trust name is revised from “SBL Janhavi 2024” to “SBL Janhavi 24”.

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