

May 24, 2024

Aye Finance (P) Ltd.: Rating confirmed as final for PTCs backed by a pool of unsecured business loans issued by SBL Janhavi 24

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
SBL Janhavi 24	PTC Series A	50.00	[ICRA]AA(SO); provisional rating confirmed as final

*Instrument details are provided in Annexure I

Rationale

In March 2024, ICRA has assigned a provisional rating to the pass-through certificates (PTCs) issued under a securitisation transaction originated by Aye Finance (P) Ltd. (AFPL/Originator). The PTCs are backed by a pool of unsecured small business loans originated by AFPL with an aggregate principal outstanding of Rs 55.55-crore (pool receivables of Rs 70.69-crore). Since the executed transaction documents are in line with the rating conditions and the legal opinion for the transaction has been provided to ICRA, the said rating has now been confirmed as final.

Pool performance summary

A summary of the pool performance after the April 2024 payouts is provided in the table below:

Parameter	SBL Janhavi 24
Months post securitisation	1
Pool amortisation	4.37%
PTC Series A amortisation	4.85%
Cumulative prepayment rate	0.39%
Monthly collection efficiency	99.69%
Loss cum 0+ dpd	0.32%
Loss cum 30+ dpd	0.00%
Loss cum 90+ dpd	0.00%
Cumulative cash collateral utilisation	0.00%

Key rating drivers

Credit strengths

- Availability of credit enhancement (CE) in the form of cash collateral (CC), 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 are 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 lakhs. Further, the CIBIL score of all contracts in the pool is greater than or equal to 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 entity's portfolio had seen stress in asset quality due to Covid-19 pandemic as reflected in higher restructuring and write offs.

Performance of past rated pools: ICRA has rated 12 pools originated by AFPL out of which one pool is live as on Apr-24 payout. The live pool has seen cumulative collection efficiency above 99% with nil CC utilisation.

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 trustee confirming compliance with the terms of the transaction and the executed transaction documents being in line with the terms initially shared with ICRA.

Analytical Approach	
Applicable rating methodologies	Rating Methodology for Securitisation Transactions
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the Originator

Aye Finance (P) Ltd. is registered with the Reserve Bank of India (RBI) as a systemically important non-deposit taking nonbanking 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.

Key financial indicators (standalone)

	FY2022	FY2023	9MFY2024
	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 (FY2025)			Chronology of Rating History for the Past 3 Years			
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					May 24, 2024	March 31, 2024	-	-
1	SBL Janhavi 24	PTC Series A	50.00	50.00	[ICRA]AA(SO)	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	[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

ANALYST CONTACTS

Abhishek Dafria

+91 22 6114 3440

abhishek.dafria@icraindia.com

Sachin Joglekar

+91 22 6114 3470

sachin.joglekar@icraindia.com

Gaurav Mashalkar

+91 22 6114 3431

gaurav.mashalkar@icraindia.com

Advait Athavale

+91 22 6114 3433

advait.athavale@icraindia.com

Ritu Rita

+91 22 6114 3409

ritu.rita@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6169 3304

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:

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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



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