July 02, 2024(Revised)

Aye Finance (P) Ltd.: Provisional [ICRA]AA(SO) assigned to PTC Series A1 and Provisional [ICRA]A+(SO) assigned to Series B PTCs issued by AJANTA 01 TRUST 2024, backed by a pool of unsecured business loans

Summary of rating action

Trust Name	Instrument*	Rated Amount (Rs. crore)	Rating Action
AJANTA 01 TRUST 2024	PTC Series A1	212.47	Provisional [ICRA]AA(SO); assigned
	Series B PTCs	17.29	Provisional [ICRA]A+(SO); assigned

**Instrument details are provided in Annexure I*

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

Rationale

The pass-through certificates (PTCs) are backed by a pool of unsecured business loan receivables originated by Aye Finance (P) Ltd. [AFPL/Originator] with an aggregate principal outstanding of Rs. 247.05 crore (pool receivables of Rs. 313.12 crore).

The provisional ratings are based on the strength of the cash flows from the selected pool of contracts along with the eligibility criteria for follow-on pools, the credit enhancement available in the structure as well as the integrity of the legal structure. The provisional ratings are subject to the fulfilment of all the conditions under the structure and ICRA's review of the documentation pertaining to the transaction.

Transaction structure

AFPL would assign the future receivables arising from the selected pool of microfinance loans to a special purpose vehicle (trust).

The trust would issue two series, viz. PTC Series A1 and Series B PTCs, backed by the assigned loan receivables. The entire principal amount is promised to PTC Series A1 and Series B PTCs in a single bullet instalment on the scheduled maturity date. The cash flows available after meeting the expected principal and promised interest payouts to the PTC Series A1 investor are available as a form of support. The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 3.00% of the initial pool principal, amounting to Rs. 7.41 crore, to be provided by the Originator, (ii) principal subordination of 14.00% of the initial pool principal for PTC Series A1 and 7.00% of the initial pool principal for Series B PTCs, and (iii) the entire EIS in the structure. However the principal subordination would build up during the replenishment period basis the transaction structure. In the event of a shortfall in meeting the promised PTC Series A1 monthly interest payouts and the PTC Series A1 principal on the scheduled maturity date, the trustee will utilise the CC to meet the shortfall. The Series B PTCs are entirely subordinated to PTC Series A1 and yield is payable post maturity of PTC Series A1. AFPL will act as the servicer for the transaction.

The credit enhancement available in the structure is in the form of (i) a cash collateral (CC) of 8.00% of the initial pool principal, amounting to Rs. 7.57 crore, to be provided by the Originator, (ii) principal subordination of 12.00% of the initial pool principal for PTC Series A1 in the form of an Series B tranche, and (iii) the entire EIS of 18.80% of the initial pool principal for PTC Series A1.

The legal maturity of all the PTCs is scheduled on December 20, 2028. The tenure of the transaction shall be divided into two periods:

- Replenishment period
- Amortisation period

Replenishment period

During the replenishment period, the principal collections from the pool will be utilised to purchase additional receivables (or further receivables or a fresh set of additional receivables) at monthly intervals. These receivables would be assigned to the trust. The replenishment period will be for 24 months from the transaction commencement date. During this period, PTC Series A1 investors will receive only the promised interest payouts on a monthly basis and the trust will purchase fresh pools as per the selection criteria from the principal collections. The residual interest collections will be used to redeem the PTC Series A1 in case of any residual cash trap trigger event or in case the advance rate is more than or equal to 70%. The advance rate as defined means outstanding amount of PTC Series A1/ (sum of the principal outstanding value of all underlying loans in the outstanding pool that are up to 30 days past due (DPD) and CC}

Further in case of occurrence of any Early Amortization Trigger Event, the replenishment Period shall end immediately and the amortisation period shall commence.

Amortisation period

Post the replenishment period, the residual pool collections, after meeting the promised interest payouts to the PTC Series A1 investors, shall be used to make the expected principal payouts to the PTC Series A1 investors. However, the principal is 'promised' to the investors only on the legal final maturity date of the transaction. The transaction also entails certain trigger events for pool amortisation. A breach of any of these trigger events would lead to the end of the replenishment period and the start of the amortisation period. If a trigger event occurs at any time during the replenishment period, then the tenure of the PTCs shall be reduced and be co-terminus with the remaining tenure of the pool of receivables held by the trust. The residual interest collections will be used to redeem the PTC Series A1 in case of any residual cash trap trigger event or in case the advance rate is more than or equal to 50%.

Additional or further receivables

In conventional securitisation transactions, all or the majority of the pool collections in a particular month (including prepayments, if any) are passed on to the PTC investors on the following payout date as per the cash flow waterfall. However, in the present structure, only the PTC Series A1 interest will be serviced and the balance pool cash flows will be utilised to acquire further receivables during the replenishment period of 24 months post the transaction date. Principal collections, including part prepayment/foreclosures, will be used to purchase these additional receivables from the originator during the replenishment period. The contracts in the fresh pools would be required to meet certain prespecified eligibility criteria.

Key eligibility criteria for the receivables

The eligibility criteria shall be met:

1. On commencement of the transaction
2. At each replenishment event for all the new assets being added as well as for the updated pool (as applicable)

The following key eligibility criteria will have to be met:

- All Loans should be hypothecation loans (unsecured business loans)
- Loans are not overdue;
- Loans should not have been overdue more than 30 DPD on any date since origination;
- All obligors to be individuals and Indian citizens;
- Loans are existing, and have not been terminated or prepaid;
- Seller has not initiated any legal or repossession proceedings against any obligors;
- Loans are fully drawn;
- Loans should not have been restructured or rescheduled or given any moratorium;
- Loans are classified as standard in the books of the Seller;

- Loans have fixed rate of interest;
- Loans have monthly interest and principal servicing frequency;
- Concentration to any state in the underlying pool to not exceed 15%; However, for the states of UP, Bihar and Rajasthan, the limit shall be 20% and 5% for states of Gujarat, Delhi and Jammu;
- Weighted average Annualised Rate of Interest (without any fees) on the underlying loans in the pool to be minimum 24%;
- Annualised Rate of Interest (without any fees) on the loans not to exceed 35% and should not be less than 15%;
- Loans to not have original maturity more than 36 months;
- Loans to not have residual maturity less than 12 months;
- Loans to not have balance tenor beyond 30 months;
- Minimum net seasoning to be at least 6 months for Loans with original tenor greater than 2 years and at least 3 months for Loans with original tenor up to 2 years;
- Weighted average net seasoning is at least 4 months;
- Loans to be denominated in Rs. and shall not be more than Rs. 4 lakh
- Equifax or any other bureau score of the obligors not to be lower than 600 on the cut-off date. However, new to credit (NTC) loans to be capped at 15% and loans with bureau score between 600-650 to be capped at 15% with an overall cap of 25% for NTC and customers with bureau score between 600-650;
- Weighted average Equifax or any other bureau (as recorded on the date of assignment) of Loans to be minimum 650;
- Exposure to any industry shall not exceed 50%;
- Aggregate exposure across all loans extended to any single borrower in the pool should not exceed Rs. 3.5 crores;

Key Residual Cash Trap Trigger Events

- Cumulative default rate has exceeded 6% in the first 12 months and exceeded 8% thereafter
- PTC Balance is greater than 87% of principal outstanding value of all underlying loans in the outstanding pool that are current
- CC has been utilized
- Downward revision in the servicer's rating below BBB by any of the existing rating agencies rating the originator/servicer
- Downward revision in the rating assigned to the PTC Series A1
- Any default on its debt obligations by the originator / servicer or initiation of any insolvency proceedings by any lender of the originator/servicer or filing of insolvency application by any regulator of the originator/servicer

Key rating drivers and their description

Credit strengths

Granular pool supported by presence of credit enhancement: The current pool is granular and basis the eligibility criteria the follow-on pools are also expected to be granular with no obligor exceeding Rs. 3.5 crore (~1.4% of the pool principal), thereby reducing the exposure to any single borrower. Further, the credit enhancement available in the form of the CC, subordination and EIS would absorb some amount of the losses in the pool and provide support in meeting the PTC payouts. Basis the advance rate criteria the EIS would be passed to PTC Series A1 for the first nine months of the replenishing period which would lead to increasing the subordination for PTC Series A1 and Series B tranche to 29.5% and 22.5% respectively (assuming 100% collection efficiency and nil prepayment).

No overdue contracts in the pool: The initial pool has no overdue contracts as on pool cut-off date. Further any follow-on pool would also not include any overdue contracts on date of assignment to trust which is a credit positive.

Credit challenges

Moderate pool selection criteria: A potential concern pertaining to a replenishing structure is the uncertainty regarding the exact composition of the additional receivables. While the current transaction has a specified eligibility criteria the follow on pools may have a lower seasoning, lower interest rate contracts, contracts from weaker geographies and moderate share of lower bureau score contracts. A higher presence of lower interest rates contracts would impact the excess interest spread adversely which acts as a credit enhancement in the structure.

Risks associated with lending business: The performance of both the initial and the follow-on pools would remain exposed to macro-economic shocks, business disruptions and natural calamities that may impact the income-generating capability of the borrowers and their ability to make timely repayments of their loans. Both the initial and the follow-on pools are exposed to the inherent credit risk associated with the unsecured nature of the asset class and that recovery from delinquent contracts tends to be lower.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses, delinquencies and prepayments in the pool. The losses and prepayments are assumed to follow a log-normal distribution. The assumptions for the losses and the coefficient of variation are considered on the basis of the values observed from the analysis of the past performance of the Originator's loan portfolio as well as the characteristics of the specific pool being evaluated. However, since the pool in the current transaction would be revised during the replenishment period, the characteristics of the pool would change unlike other PTC transactions where the pool is static. ICRA has used the defined eligibility criteria to arrive at a potential loss for the follow-on pools. The resulting collections from the current pool and follow on pools, after incorporating the impact of the losses and prepayments, are accounted for in ICRA's cash flow model, in accordance with the cash flow waterfall of the transaction.

For the current transaction, ICRA has estimated the shortfall in the pool principal collection during its tenure at 6.30% of the initial pool principal with certain variability around it. The average prepayment rate for the underlying pool is modelled in the range of 3% to 12% per annum. Various possible scenarios have been simulated at stressed loss levels and prepayment rates and the incidences of default to the investor as well as the extent of losses are measured after factoring in the credit enhancement to arrive at the final rating for the instrument.

Liquidity position:

The liquidity for PTC Series A1 is superior after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~6.50 times the estimated loss in the pool.

The liquidity for Series B PTCs is strong after factoring in the credit enhancement available to meet the promised payouts to the investor. The total credit enhancement would be ~5.25 times the estimated loss in the pool.

Rating sensitivities

Positive factors – Since the principal amortisation would begin on the crystallisation of the final pool, the rating is unlikely to be upgraded till the final pool is crystallised. The rating could be upgraded basis the healthy collections observed in the final crystallised pool, leading to the build-up of the credit enhancement cover over the rated PTCs.

Negative factors – The rating could be downgraded on the occurrence of a trigger event, non-adherence to the key transaction terms and deterioration in the performance of the follow-on pools such that the delinquencies during the amortisation period are higher than expected. 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 March 2024, the key characteristics and composition of the current pool, the eligibility criteria for follow-on pools, the performance expected over the balance tenure of the pool, and the credit enhancement 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	FY2024
	Audited	Audited	Audited
Total income	441.4	636.8	1,071.8
Profit after tax	-45.7	53.8	160.7
Total managed assets	2,370.8	3,305.6	4,472.8
Gross stage 3	3.3%	2.5%	3.2%
CRAR	36.0%	31.1%	32.8%

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
					July 02, 2024	-	-	-
1	AJANTA 01 TRUST 2024	PTC Series A1	212.47	212.47	Provisional [ICRA]AA(SO)	-	-	-
		Series B PTCs	17.29	17.29	Provisional [ICRA]A+(SO)			

Complexity level of the rated instrument

Instrument	Complexity Indicator
PTC Series A1	Moderately Complex
Series B PTCs	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 (p.a.p.m)	Maturity Date*	Amount Rated (Rs. crore)	Current Rating
AJANTA 01 TRUST 2024	PTC Series A1	June 28, 2024	10.60%	December 20, 2028	212.47	Provisional [ICRA]AA(SO)
	Series B PTCs		0.01%	December 20, 2028	17.29	Provisional [ICRA]A+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

Corrigendum:

Document dated July 02, 2024, has been corrected with revisions as detailed below:

Instrument name has been revised wherever reference to the same was given.

- Revision made:

"Equity PTCs" have been renamed as "Series B PTCs".

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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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